

A better business



BT Group plc

**Q4/full year 2009/10 Results
and Investor Day
13 May 2010**

A better business



BT Group plc

Sir Mike Rake

Forward-looking statements caution

Certain statements in these presentations are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: future financial outlook and investment plans; revenue; operating cost savings; EBITDA; free cash flow; net debt; opportunities in BT Global Services, and improvements in its operating cash flow; progressive dividends; capital expenditure; investment in new consumer propositions and expansion in the Asia Pacific region; enhancing our TV offering; investment in and roll out of fibre; the pensions operating charge; and liquidity, funding and requirement to raise debt.

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Building a better future agenda

09:00 – 10:45	Q4/FY 2009/10 results, future plans + Q&A	Sir Mike Rake/Ian Livingston/ Tony Chanmugam
10:45 – 11:15	Break and product demonstrations	
11:15 – 12:15	Retail + Q&A	Gavin Patterson
12:15 – 12:45	Networks and systems + Q&A	Clive Selley
12:45 – 13:45	Lunch and product demonstrations	
13:45 – 14:45	Wholesale/Openreach + Q&A	Sally Davis/Steve Robertson
14:45 – 15:45	Global Services + Q&A	Jeff Kelly
15:45 – 16:00	Closing remarks	Ian Livingston

2009/10 summary of the year

- ▶ Year of delivery for BT
- ▶ Progress in Global Services, more to do
- ▶ Rest of business performed well
- ▶ Significant reduction in cost base and capex and improved cash flow
- ▶ Continuing to invest for the future, pay progressive dividends, reduce net debt and support the pension scheme
- ▶ Regulatory backdrop evolving positively

Full year 2009/10 group results

Revenue

adjusted ¹	£20,911m	2%	
underlying		4%	

Adjusted EBITDA¹	£5,781m	6%	
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Adjusted EPS¹	18.6p	16%	
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Free cash flow²	£1,933m	up £1,196m	
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Net debt	£9,283m	down £1,078m	
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¹ before specific items, leaver costs, net interest on pensions, and BT Global Services contract and financial review charges in 2008/09. Adjusted revenue is stated before specific items and BT Global Services contract and financial review charges in 2008/09

² before pension deficit payment of £525m in FY 2009/10, £nil in FY 2008/09, but after the cash costs of BT Global Services restructuring

Outlook vs. outcome

	Outlook at May 2009	Outlook at February 2010	Outcome	
Revenue ¹ decline	4% - 5%	3% - 4%	2%	✓
Underlying cost reductions ²	>£1bn	c.£1.5bn	£1,752m	✓
Adjusted EBITDA ¹	-	c.£5.7bn	£5,781m	✓
Capital expenditure	c.£2.7bn	c.£2.5bn	£2,533m	✓
Free cash flow ³	>£1bn	c.£1.7bn	£1,933m	✓
Net debt	-	<£10bn	£9,283m	✓

¹ before specific items, leaver costs and BT Global Services contract and financial review charges in 2008/09. Adjusted revenue is stated before specific items and BT Global Services contract and financial review charges in 2008/09

² underlying operating costs and capital expenditure before specific items, leaver costs and BT Global Services contract and financial review charges in 2008/09

³ before pension deficit payment of £525m in FY 2009/10, £nil in FY 2008/09, but after the cash costs of BT Global Services restructuring

Final dividend and dividend policy

- ▶ Proposed final dividend 4.6p
- ▶ Total dividend 6.9p, up 6%
- ▶ Committed to progressive dividends over next 3 years at same time as:
 - investing for the future
 - reducing net debt
 - supporting pension scheme

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Ian Livingston

Q4 2009/10 line of business summary results

	Global Services	Retail	Wholesale	Openreach
Revenue	 2%	 4%	 5%	 1%
Adjusted EBITDA ¹	 453%	 6%	 flat	 4%

¹ before specific items, leaver costs and BT Global Services contract and financial review charges in Q4 2008/09

FY 2009/10 line of business summary results

	Global Services	Retail	Wholesale	Openreach
Revenue	 1%	 4%	 4%	 1%
Adjusted EBITDA ¹	 40%	 12%	 flat	 flat
Operating cash flow	 48%	 55%	 3%	 11%

¹ before specific items, leaver costs and BT Global Services contract and financial review charges in FY 2008/09

Q4/FY 2009/10 line of business overview

Global Services

	Q4 2009/10	Change	FY 2009/10	Change
Revenue	£2,292m	(2%)	£8,513m	(1%)
EBITDA ¹	£177m	up £145m	£457m	up £131m

- ▶ Underlying revenue flat in Q4
 - delivery of contract milestones
- ▶ Net operating costs down 9% (underlying 6%) in Q4
- ▶ Sequential EBITDA improvement throughout year
- ▶ Contract order value £2.2bn in Q4, £6.6bn in year

¹ before contract and financial review charges of £1,303m in Q4 2008/09 and £1,639m in FY 2008/09

Q4/FY 2009/10 line of business overview

Retail

	Q4 2009/10	Change	FY 2009/10	Change
Revenue	£2,064m	(4%)	£8,297m	(4%)
EBITDA	£470m	6%	£1,885m	12%

- ▶ Consumer down 2% in Q4
 - increase in call volumes driven by bad weather
- ▶ Business down 6% in Q4
 - decline in calls and lines
 - growth in ICT
- ▶ Net operating costs down 7% in Q4
- ▶ 44% share of broadband net adds*
 - highest retail net adds for 8 quarters
 - highest in market
- ▶ Improved trends in line loss and active customers

Q4/FY 2009/10 line of business overview

Wholesale

	Q4 2009/10	Change	FY 2009/10	Change
Revenue	£1,091m	(5%)	£4,450m	(4%)
EBITDA	£315m	flat	£1,284m	flat

- ▶ Revenue ex MTR reductions and transit down 1% in Q4
- ▶ Net operating costs down 7% in Q4
- ▶ EBITDA broadly flat
- ▶ MNS contract wins of £300m in Q4, £1.8bn in year

Q4/FY 2009/10 line of business overview

Openreach

	Q4 2009/10	Change	FY 2009/10	Change
Revenue	£1,281m	(1%)	£5,164m	(1%)
EBITDA	£493m	(4%)	£2,016m	flat

- ▶ Continuation of revenue trend – external up, internal down
- ▶ Net operating costs up 1% in Q4
 - business rate rebate in previous year
- ▶ EBITDA down 4%

Pension Trustee's valuation summary

	December 2005	December 2008
Market value of assets	£34.4bn	£31.2bn
Present value of liabilities	<u>£37.8bn</u>	<u>£40.2bn</u>
Funding deficit	£3.4bn	£9.0bn
Confidence level	65%	69%
Life expectancy of male aged 65	19.8 years ¹	21.6 years
Liabilities as % of PPF	101%	102%

¹ rolled forward to December 2008 equivalent

- ▶ Trustee's prudent valuation agreed with company
- ▶ The Pensions Regulator's formal review remains on going

Pension update

- ▶ Significant improvements since December 2008

	December 2008	March 2010
Asset value	£31.2bn	£35.3bn
Deficit valuations:		
Funding valuation	£9.0bn	c.£7.5bn (Dec 09)
Median estimate	£3.0bn	c.£1.5bn
PPF estimate	£8.5bn	c.£3.8bn ¹ (Dec 09)
IAS 19 deficit (net)	£1.7bn	£5.7bn
Real discount rate	3.65%	1.83%

¹ based on PPF assumptions adopted in October 2009

Pension accounting 2010/11

	2009/10	2010/11
▶ Pension service charge ¹ (EBITDA impact)	£200m	c.£300m
▶ Pension interest charge (net)	<u>£279m</u>	<u>c.£70m</u>
	£479m	c.£370m

- ▶ Service cost increases due to the lower real discount rate
- ▶ Lower net interest charge largely due to increased asset values

¹ BT Pension Scheme

Building a better business

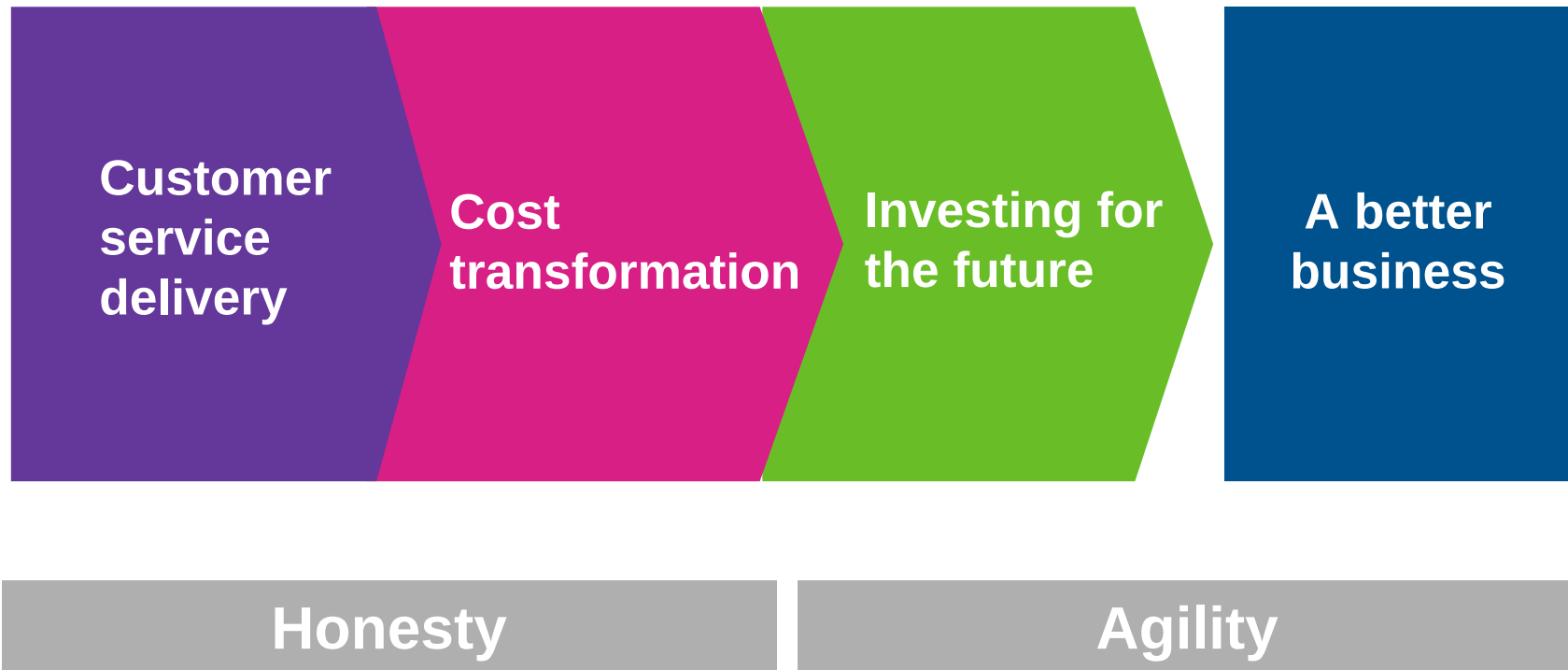


Customer service delivery

- ▶ Key internal programme 'Right First Time'
 - measures end to end service
 - reduced overall failures by 2/3 over 2 years
 - consequent cost reduction
- ▶ Network reliability
 - 3 years ago, one fault every 9 years → now, one every 15 years
- ▶ Complaints
 - Consumer reduced by around half over the last 18 months

Still more to do

Building a better business



A more agile workforce

Transforming cost base while protecting permanent employees

- ▶ TLR reduced by c.20,000 in 2009/10 (c.9,000 BT employees)
- ▶ Reduction in offshore contact centre work
- ▶ Over 5,000 BT people successfully redeployed

Managing our people more efficiently

- ▶ New attendance patterns provide better service

Multi-skilling our staff

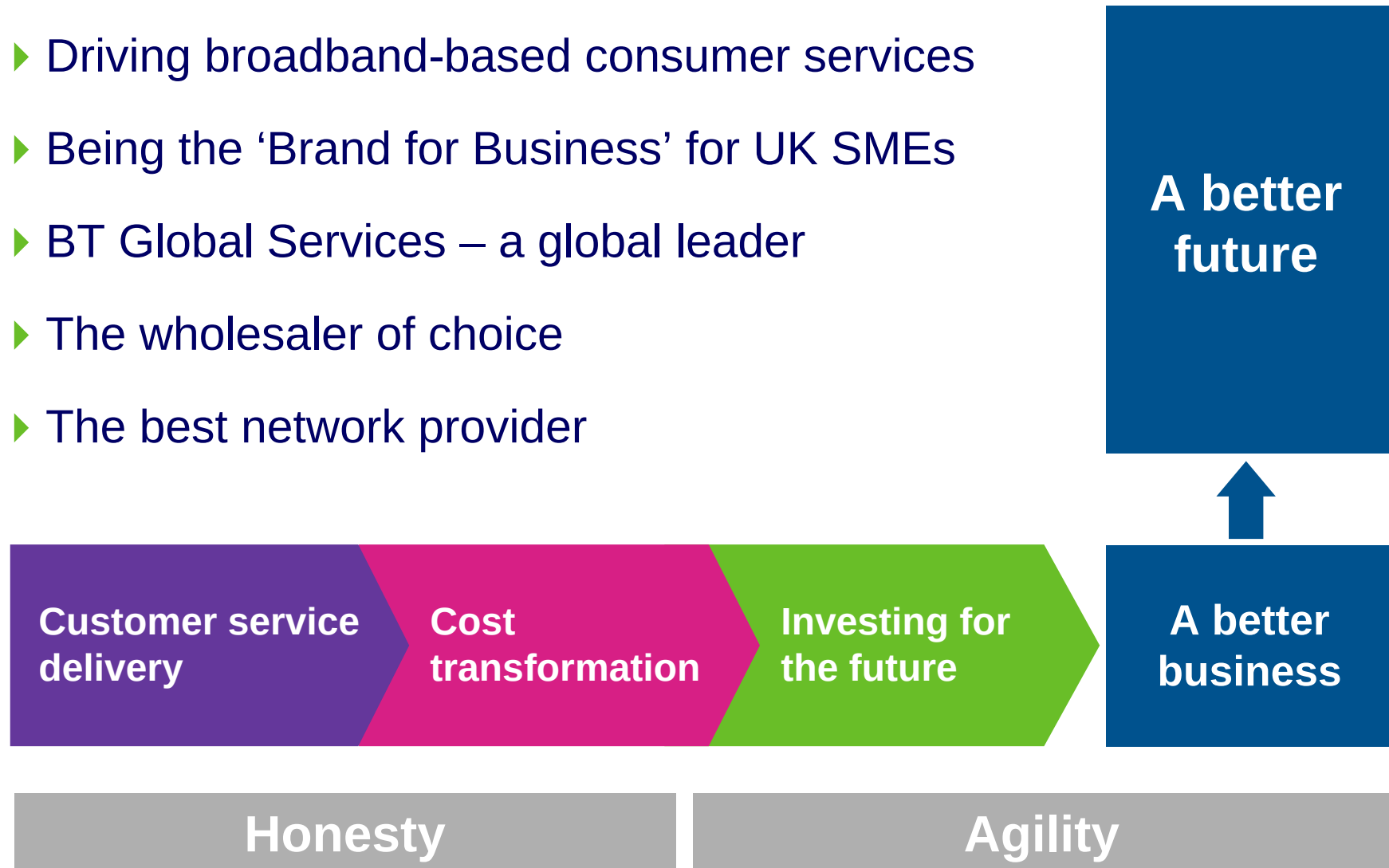
- ▶ 76% of engineers now multi-skilled
- ▶ Over 5,000 call centre staff to receive nationally recognised qualification

Re-focusing the workforce to new growth areas

- ▶ Fibre – utilising c.3,000 people

Building a better future

- ▶ Driving broadband-based consumer services
- ▶ Being the 'Brand for Business' for UK SMEs
- ▶ BT Global Services – a global leader
- ▶ The wholesaler of choice
- ▶ The best network provider



Our better future is guided by our market views

- 1 MNCs are focussing on their core activities and placing increasing reliance on their networks. We see increasing **global demand for managed network services**

- 2 UK SMEs will buy **bundles of services** as they have neither the time nor the expertise to self-package

- 3 Fixed broadband is the performance leader. **Mobile broadband** will be largely **complementary** and not a substitute for fixed broadband

- 4 Consumers will buy **bundles of broadband and TV** together more so than mobile. Consumers will also want TV services which are more personal, on-demand & interactive

- 5 **Demand for fixed and mobile** communications is increasing & relies on fixed network infrastructure. Mobile & fixed providers are seeking a **trusted wholesaler** to deliver economies of scale

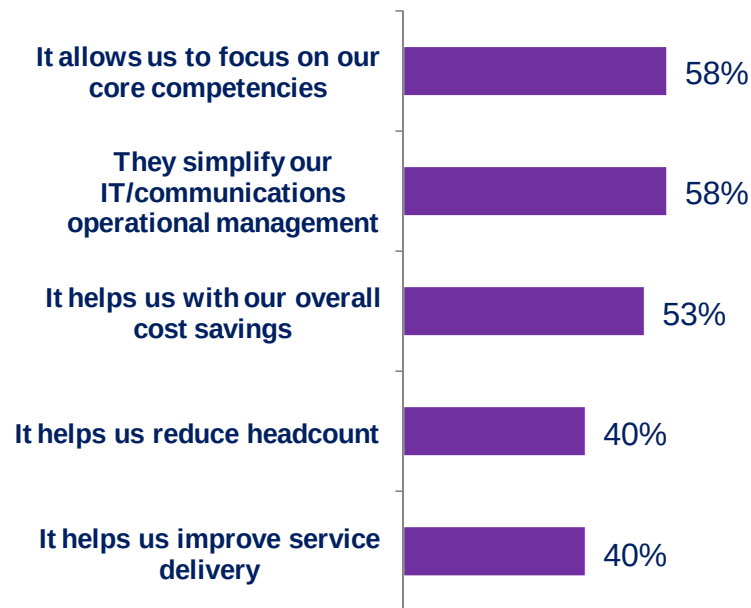
- 6 Next generation broadband is transforming all our lives and opening up new opportunities. We see increasing demand for **higher speeds**

- 7 **Price is a key factor** across all our markets. Cost reduction is key to being a competitive business

1. Global demand for networked services

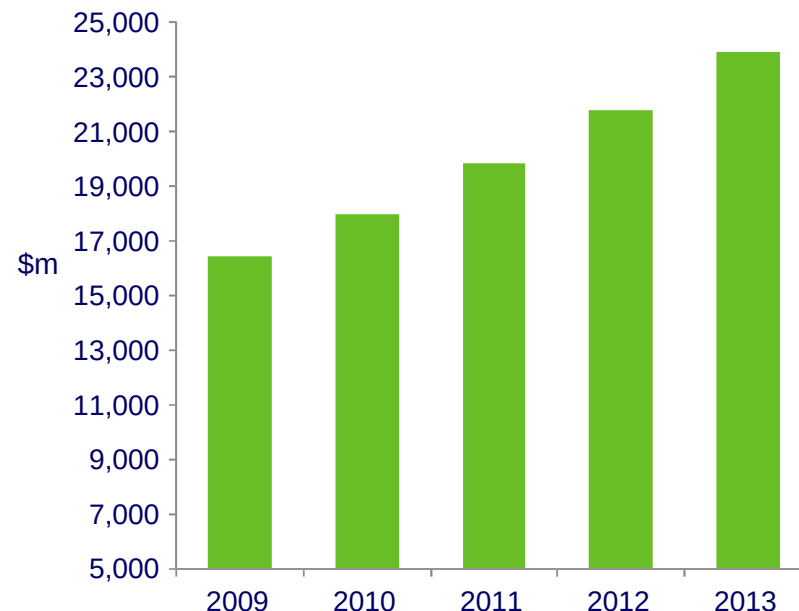
- ▶ MNCs are focussing on their core activities and placing increasing reliance on their networks
- ▶ We see increasing demand for managed network services

Top 5 reasons for choosing to use managed / outsourced telecommunications services?



Source: Forrester – The State Of Enterprise Networks And Telecommunications: 2009

Multinational managed service spend

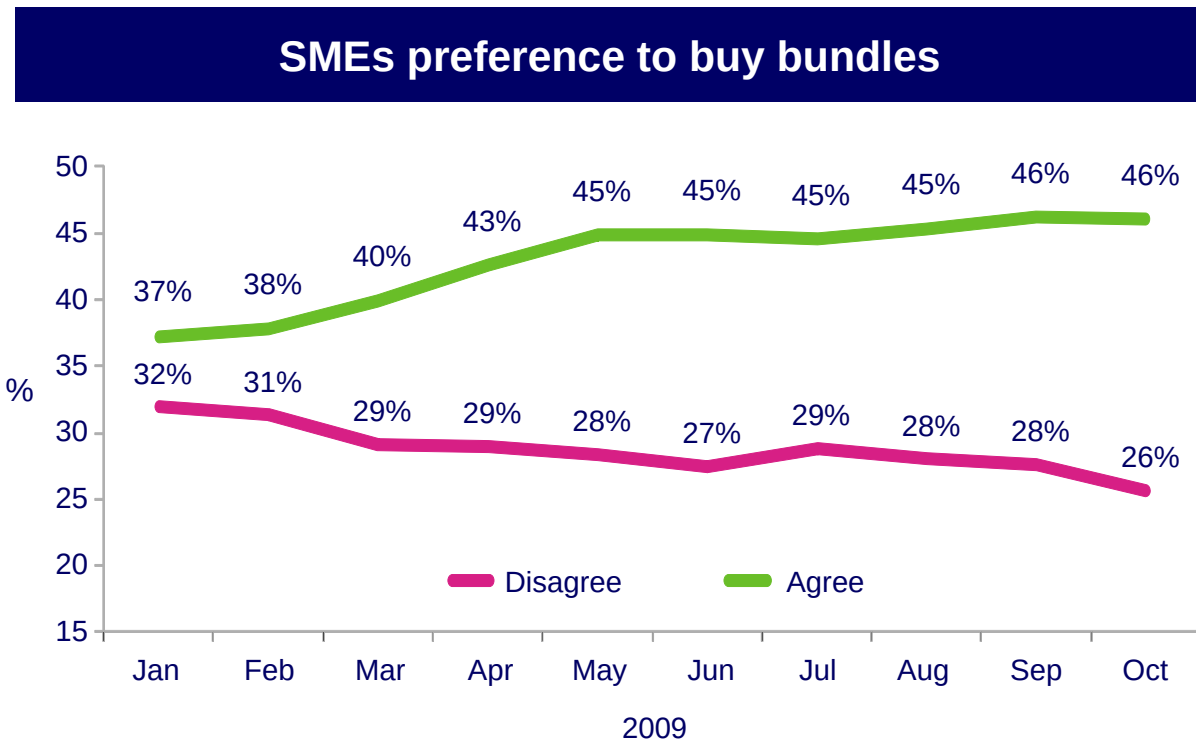


Source: IDC, 2009. Services include MPLS, communication, security and application performance management. Enterprises with above 1,000 employees

Asia Pacific MNS market 4 year CAGR of c.15%*

2. Bundled services core to SME market

- ▶ UK SMEs are increasingly preferring bundled telecommunications services to meet their needs

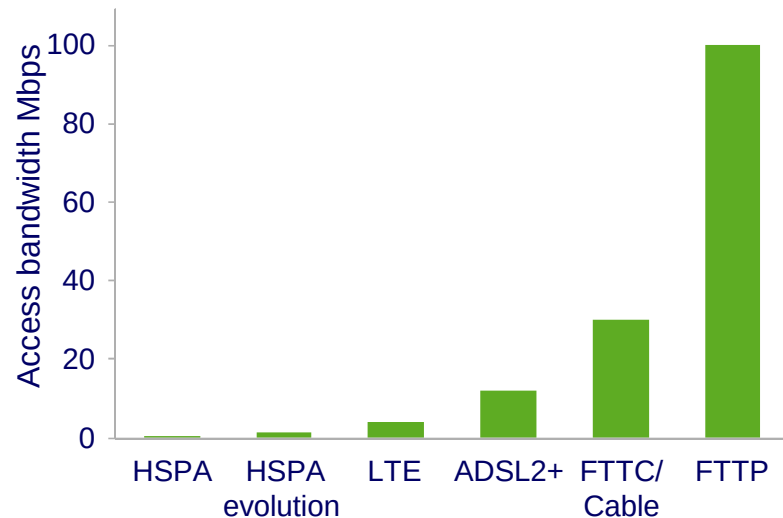


Source: Ofcom 2009: Business Tracker: BUN1: results filtered by customers who already use fixed line, broadband and mobile for business purposes. How strongly do you agree that [...] your organisation prefers to buy complete Communication/IT products in combined packages where you get more than one product or service included rather than buying individual products?

3. Mobile broadband complementary to fixed

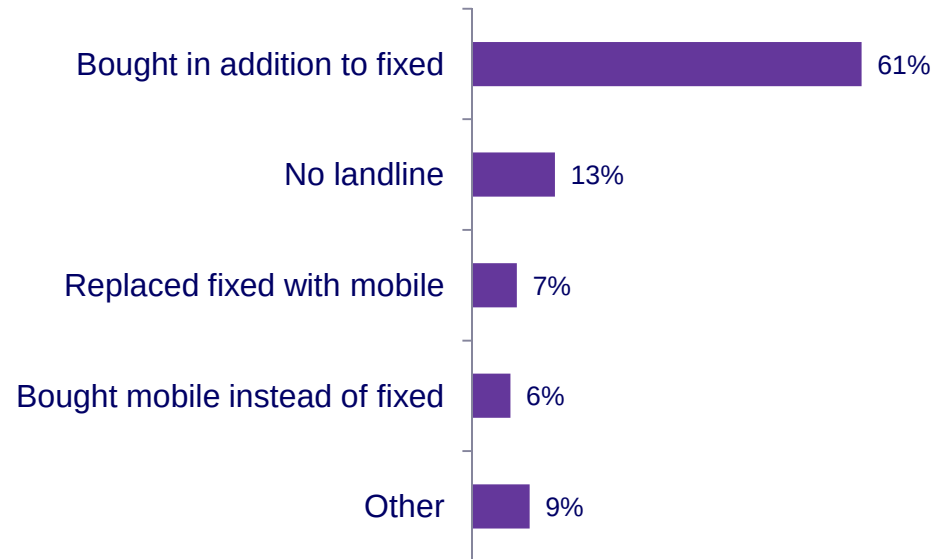
- ▶ Fixed broadband is the performance leader
- ▶ Mobile broadband will be largely complementary and not a substitute for fixed broadband

Average broadband speeds



Source: Ofcom "UK Broadband Speeds 2009". Motorola publication "Realistic LTE Performance – From Peak to Subscriber Experience" Aug 2009. BT FTTP product definition

Reasons for purchasing mobile broadband*

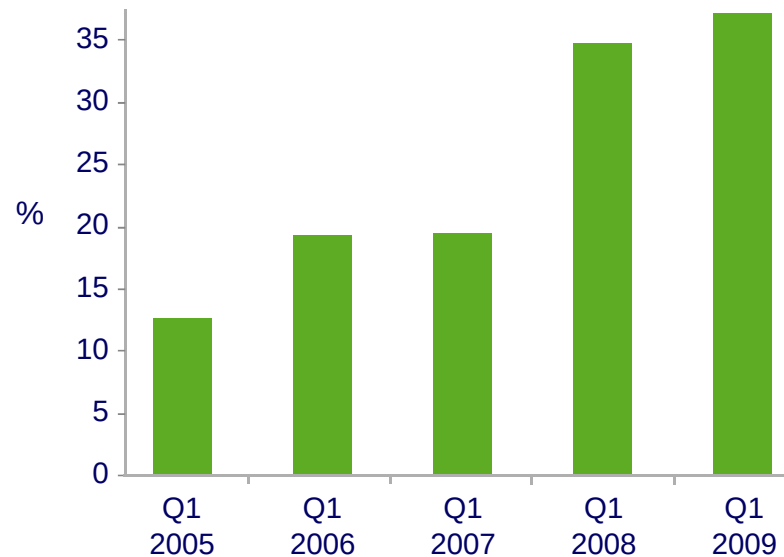


Source: YouGov Dongle Tracker, October 2009. *Which of the following statements best describes why you purchased a dongle, modem stick, or datacard to connect to a mobile phone network?

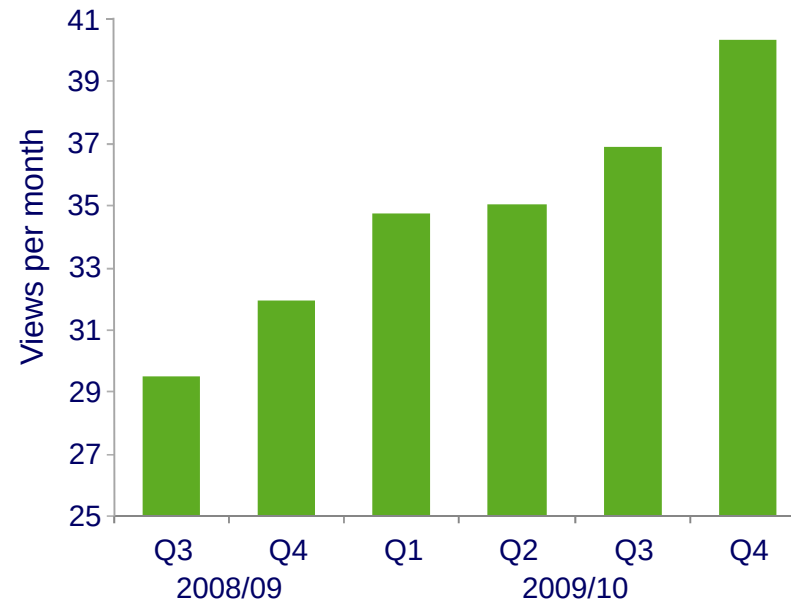
4. Consumers want broadband and TV bundles

- ▶ Consumers want bundles of broadband and TV together
- ▶ Consumers will also want TV services which are more personal, on-demand and interactive

Consumers buying voice, broadband and multichannel TV bundles



BT Vision views per subscriber per month (VoD)

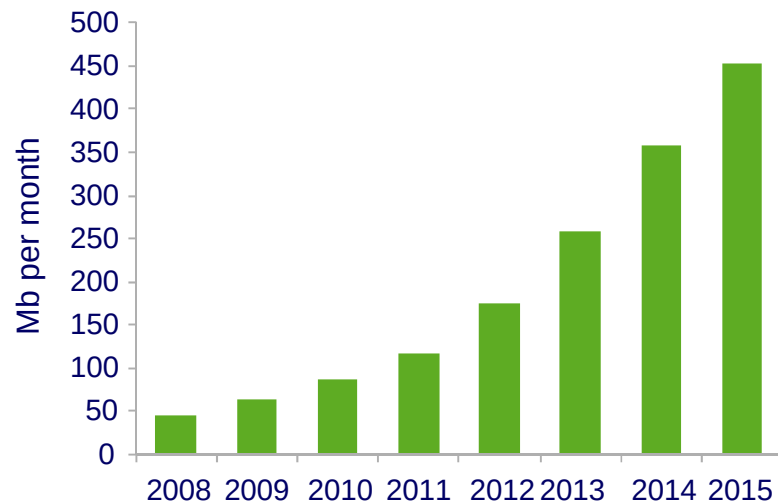


Source: Ofcom "The Consumer Experience", December 2009

5. Increased demand requires a trusted wholesaler

- ▶ Demand for fixed and mobile communications is increasing and relies on fixed network infrastructure
- ▶ Mobile and fixed providers are seeking a trusted wholesaler to deliver economies of scale

Average traffic per mobile user



Source: Analysys Mason 2009 - Western Europe Forecasts

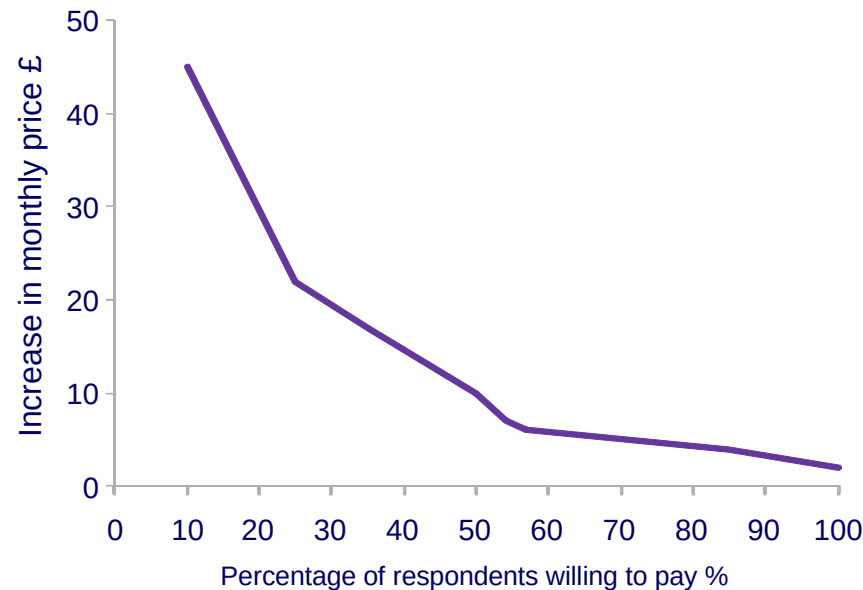
BT Wholesale supports CPs



6. Customers increasingly want higher speeds

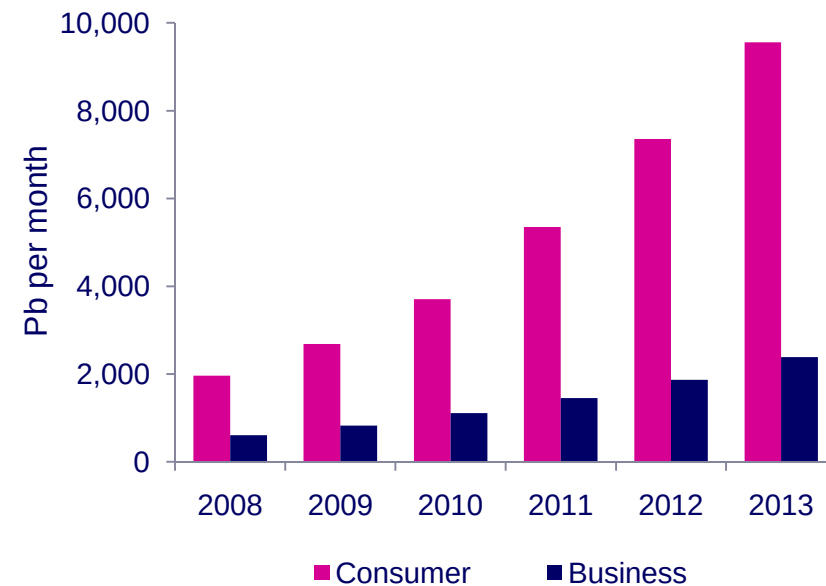
- ▶ There is evidence that customers will pay more for higher speeds
- ▶ We see increasing demand for higher speeds

How much extra consumers are prepared to pay to double their broadband speeds?



Source: Ofcom, March 2010

European IP traffic 2008-2013

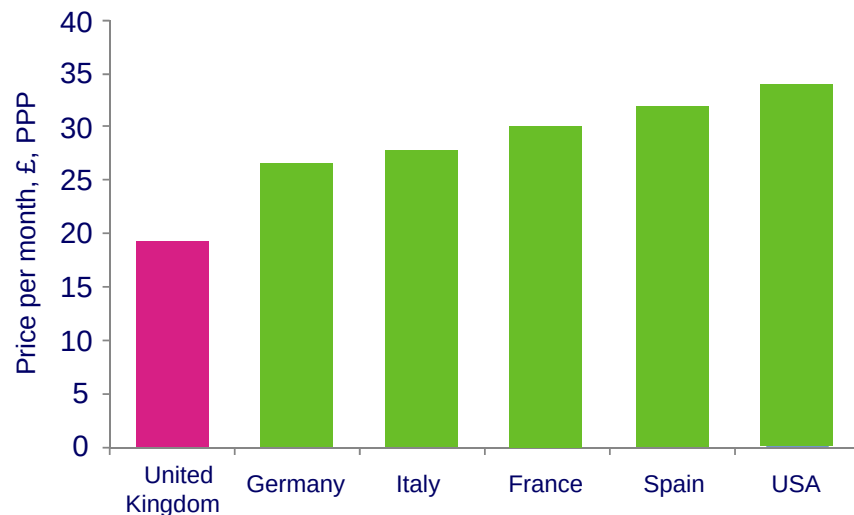


Source: Cisco Visual Networking Index, June 2009

7. Price matters

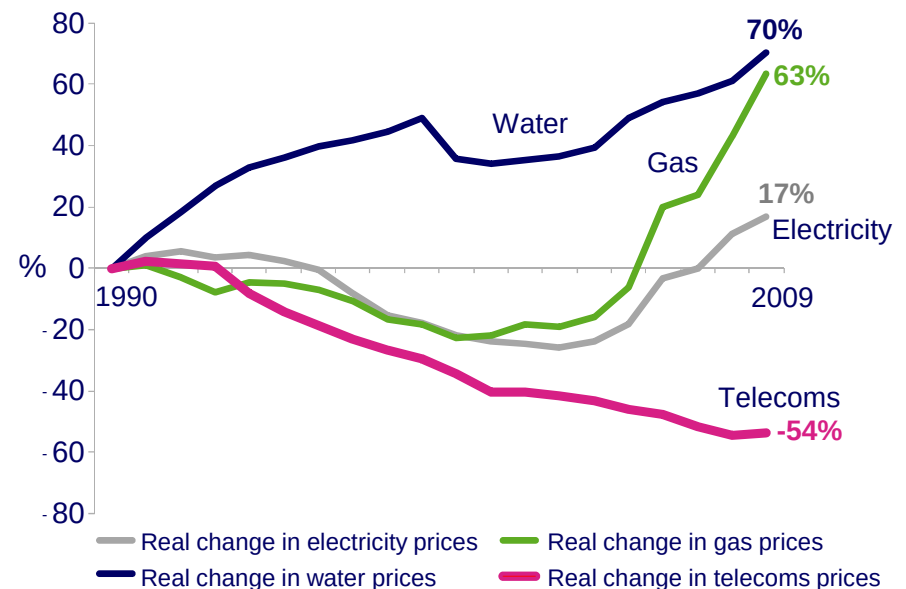
- ▶ Price is a key factor across all our markets
- ▶ Cost reduction is critical to being a competitive business

K has lowest landline prices amongst major countries



Source: Ofcom data (supplied by Teligen), Dec 2009

Telecomms and utilities price changes



Source: ONS and BIS, 2010

Investing for the future

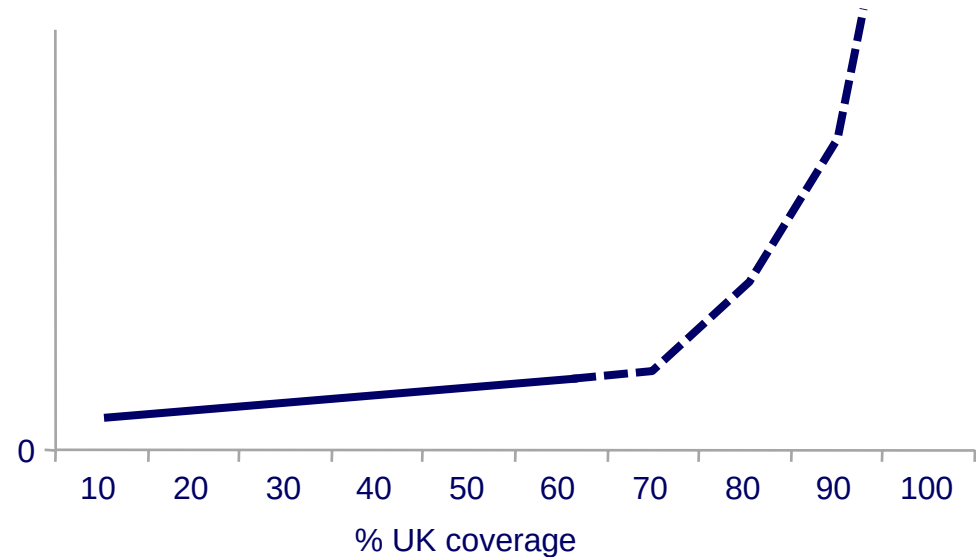
- ▶ Fibre
- ▶ TV
- ▶ Broadband related services
- ▶ SME growth
- ▶ Asia Pacific
- ▶ New products, services and propositions
- ▶ Systems and network improvements

c.£200m incremental opex investment in 2010/11
capex within current group levels

Announcing potential to extend fibre deployment

- ▶ 2/3 of UK by 2015
- ▶ Total £2.5bn spend
- ▶ Dependent on appropriate investment environment
- ▶ One of the largest private sector plans in the world
- ▶ Contained with current capex levels

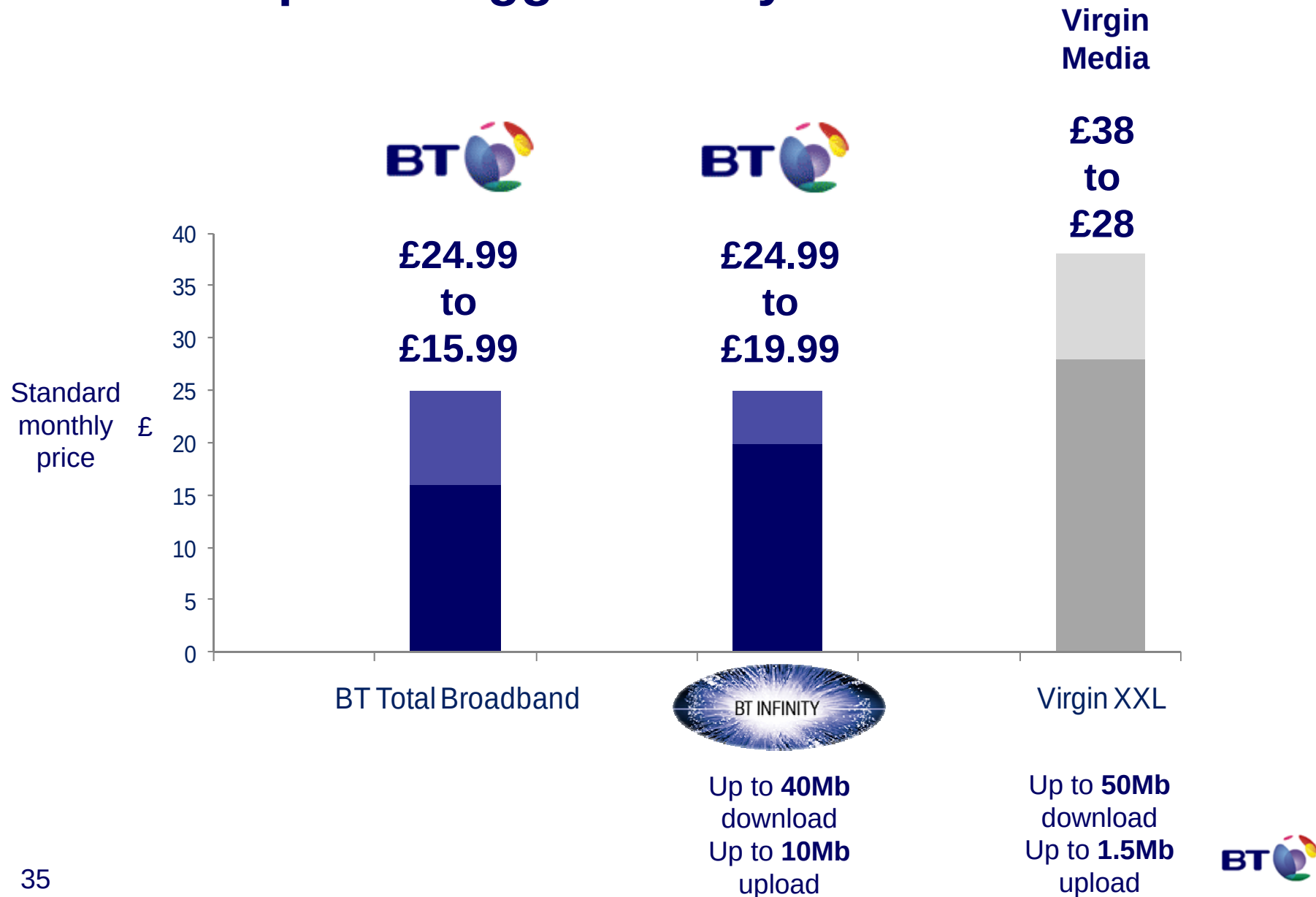
FTTC cost per home (illustrative)



Super-fast broadband aggressive roll out

- ▶ We're benefitting from other countries' experience to deliver one of the fastest roll outs
- ▶ Competition-ready from day one
- ▶ Low double-digit years payback
- ▶ Customer take-up is a key driver of return

We have priced aggressively



Outlook 2010/11

Revenue	c.£20bn
Operating cost savings¹	c.£900m
Adjusted EBITDA² after leaver costs	in line with 2009/10
Free cash flow before specific items³	c.£1.8bn
Net debt	<£9bn

¹ underlying operating costs before specific items, depreciation and amortisation

² before specific items

³ before pension deficit payment . Specific items are expected to result in cash outflow of around £150m in 2010/11

Outlook future plans

Revenue

- ▶ Improving revenue trends from 2010/11 to 2012/13, with growth in 2012/13
-

Adjusted EBITDA¹ after leavers

- ▶ Growth 2010/11 to 2012/13 driven by further cost reductions and improving revenue trends
-

Free cash flow before specific items²

- ▶ Around £2.0bn by 2012/13
 - ▶ Global Services operating cash flow, further significant improvement in 2010/11, positive in 2011/12
-

Dividends

- ▶ Progressive over next 3 years
-

¹ before specific items

² before pension deficit payment

Key messages

Continue to improve service and efficiency

Strong cash generation



**Invest in
business**



**Reduce net
debt**



**Support
pension fund**



**Progressive
dividend**

A better business



A better future

Progress made

A lot more to do

A better business



BT Group plc

Tony Chanmugam

Income statement

£m	Q4 2009/10	YoY Change %	FY 2009/10	YoY Change %
Adjusted revenue¹	5,356	(3)%	20,911	(2)%
POLOs ²	(929)		(4,083)	
Revenue (net)	4,427		16,828	
Adjusted EBITDA¹	1,530	16%	5,781	6%
Depreciation & amortisation	(788)		(3,039)	
Adjusted operating profit¹	742	41%	2,742	7%

¹ before specific items, leaver costs and BT Global Services contract and financial review charges of £1,303m in Q4 2008/09, £1,639m in FY 2008/09. Adjusted revenue is stated before specific items and BT Global Services contract and financial review charges of £41m in Q4 2008/09 and FY 2008/09.

² Payments to other licensed operators.

Income statement

£m	Q4 2009/10	YoY Change %	FY 2009/10	YoY Change %
Adjusted operating profit¹	742	41%	2,742	7%
Net finance expense (ex. pension interest)	(228)	-	(890)	5%
Associates & JVs	9		25	
Profit before tax¹	523	67%	1,877	13%
Leaver costs	(18)		(142)	
Pension interest	(71)		(279)	
Specific items (before tax)	(183)		(449)	
Reported profit before tax	251		1,007	
Tax	(42)		22	
Profit for the period	209		1,029	
Reported EPS	2.7p		13.3p	
Adjusted¹ EPS	5.2p	73%	18.6p	16%

¹ before specific items, leaver costs, net interest on pensions and BT Global Services contract and financial review charges of £1,303m in Q4 2008/09, £1,639m in FY 2008/09

Free cash flow

£m	Q4 2009/10	YoY Change £m	FY 2009/10	YoY Change £m
Adjusted EBITDA¹	1,530	213	5,781	339
Leavers	(18)	44	(142)	62
Interest	(190)	12	(940)	(3)
Tax	(18)	97	349	577
Capex	(699)	2	(2,480)	558
Working capital/specific items/Other	440	(457)	(635)	(337)
Free cash flow²	1,045	(89)	1,933	1,196
Net debt			9,283	1,078

¹ before specific items, leaver costs and BT Global Services contract and financial review charges of £1,303m in Q4 2008/09, £1,639m in FY 2008/09.

² before pension deficit payment of £nil in Q4 2009/10 and Q4 2008/09 and £525m in FY 2009/10, £nil in FY 2008/09, but after the cash costs of BT Global Services restructuring.

Operating cash flow by line of business

£m	Q4 2009/10	YoY Change £m	FY 2009/10	YoY Change £m
Global Services	141	(138)	(443)	404
Retail	473	90	1,688	598
Wholesale	344	(18)	856	21
Openreach	354	60	1,231	118
LoB operating free cash flow	1,312	(6)	3,332	1,141
Other	(267)	(83)	(1399)	55
Group free cash flow¹	1,045	(89)	1,933	1,196

¹ before pension deficit payment of £nil in Q4 2009/10 and Q4 2008/09 and £525m in FY 2009/10, £nil in FY 2008/09, but after the cash costs of BT Global Services restructuring.

Financial strategy to 2012/13

2010/11



2012/13

Improving revenue trends

Grow EBITDA

Grow free cash flow



Invest in
business



Reduce net
debt

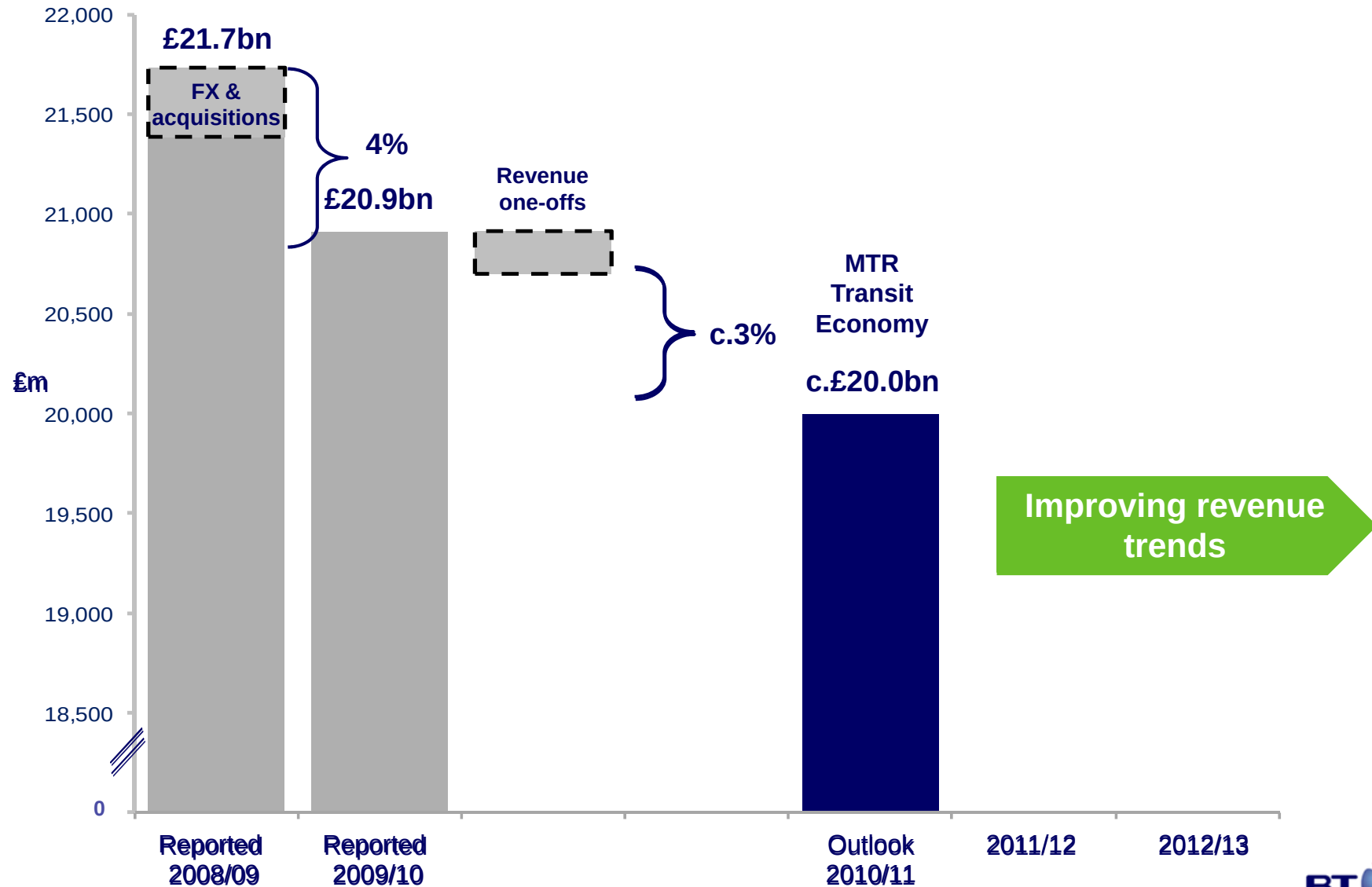


Support
Pension fund



Progressive
dividend

Revenue movement

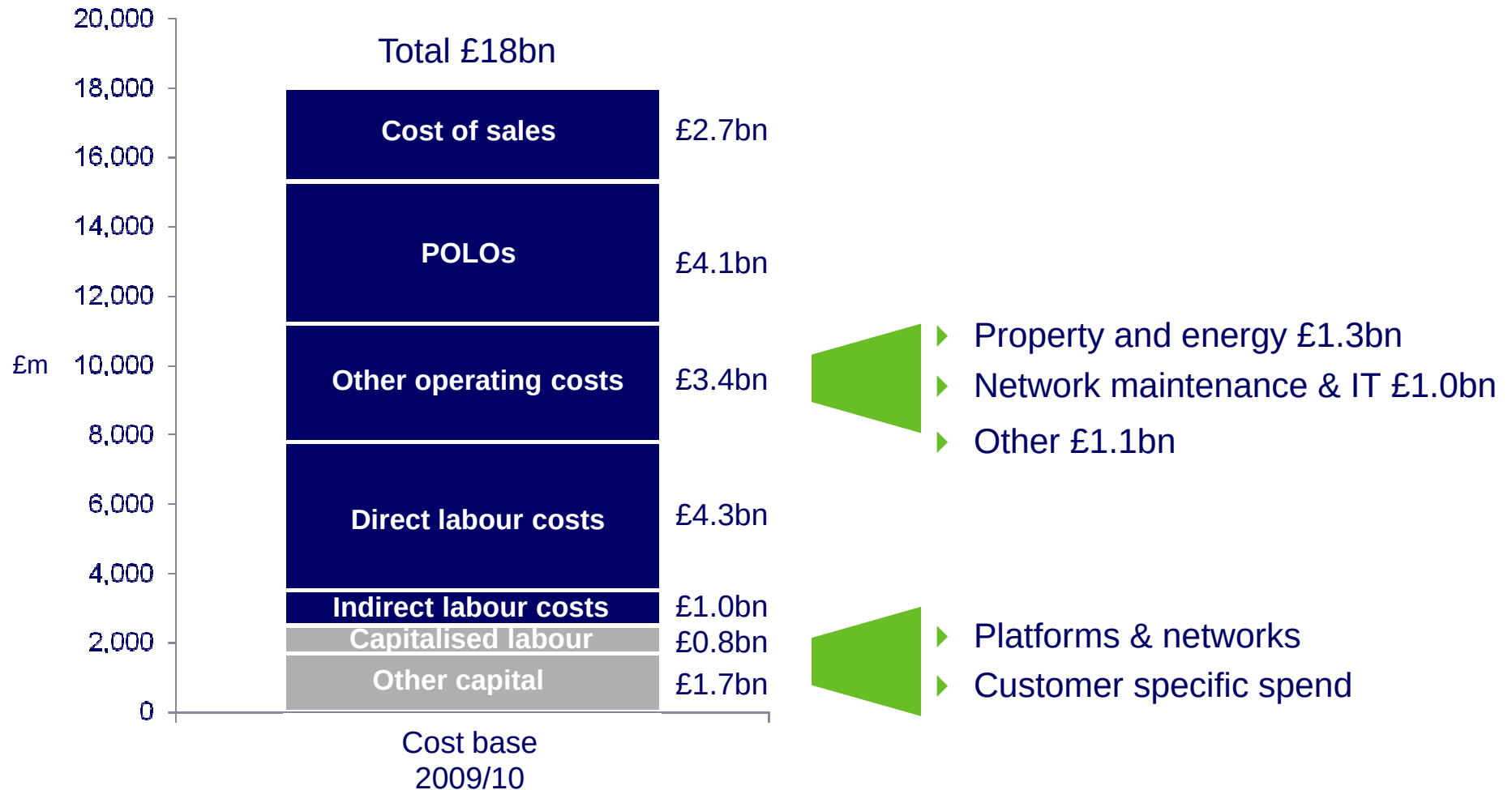


Improving revenue trends 2010/11 to 2012/13

- ▶ Global Services – revenue growing by 2012/13
 - Demand for network centric services
 - Growth in Asia Pacific region
- ▶ Retail – improvement in revenue trends
 - Exploiting fibre investment
 - Building our TV business
 - Being the ‘Brand for Business’ for UK SMEs
- ▶ Wholesale – broadly flat
 - Increased focus on MNS
- ▶ Openreach – broadly flat
 - Fibre based products

Aim to grow in 2012/13

How BT spends its money



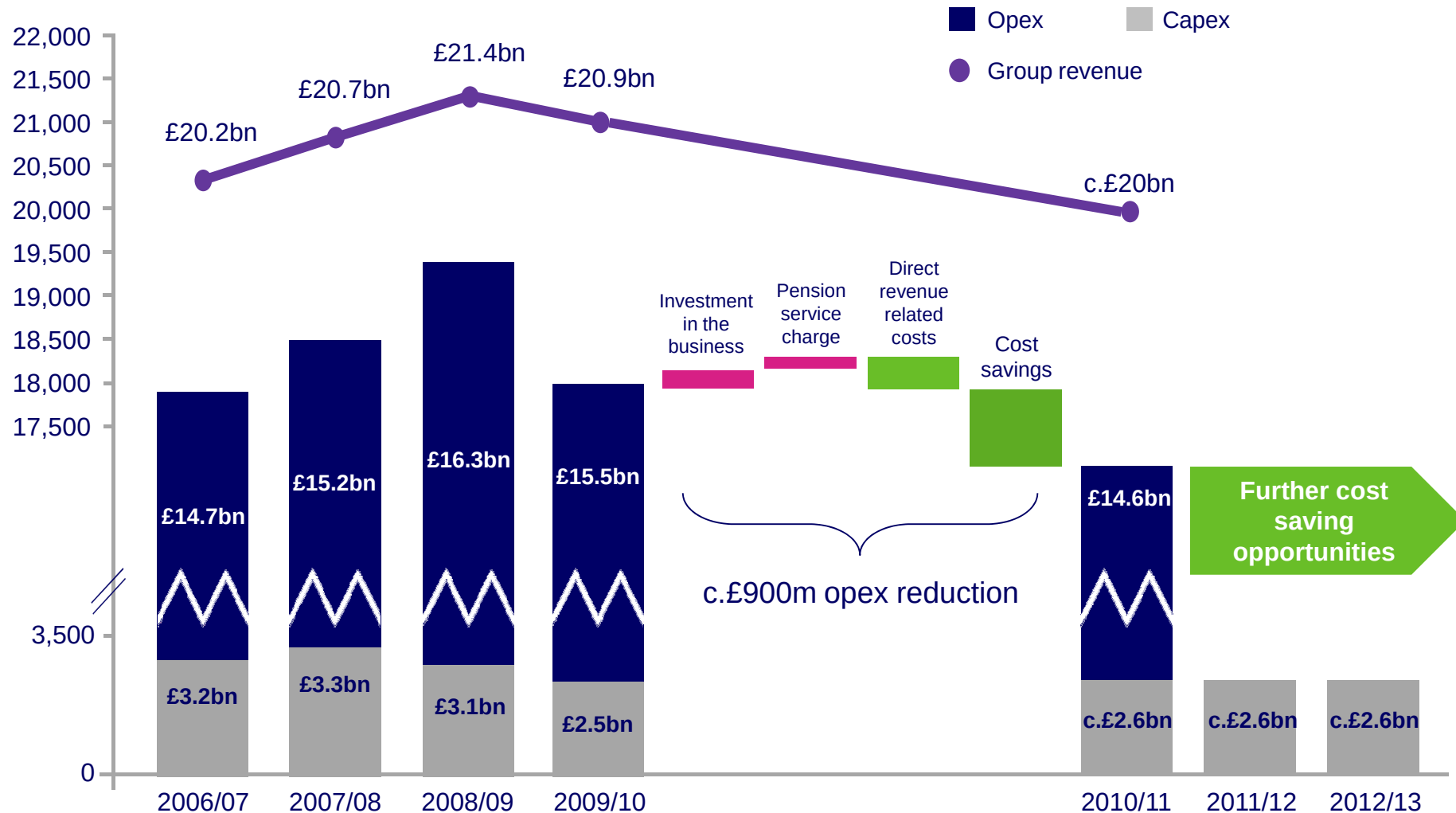
Grow EBITDA Q4/FY 2009/10 group cost reductions¹



¹ before specific items, leaver costs, depreciation & amortisation and other operating income

² POLOs and transit

Grow EBITDA 5 year revenue and operating cost story



Grow EBITDA continued focus on costs

Current actions

Top 40 suppliers - rates

‘Right First Time’

Overhead value analysis

Process re-engineering
by line of business

Good practice

Reducing spare
capacity



Future actions

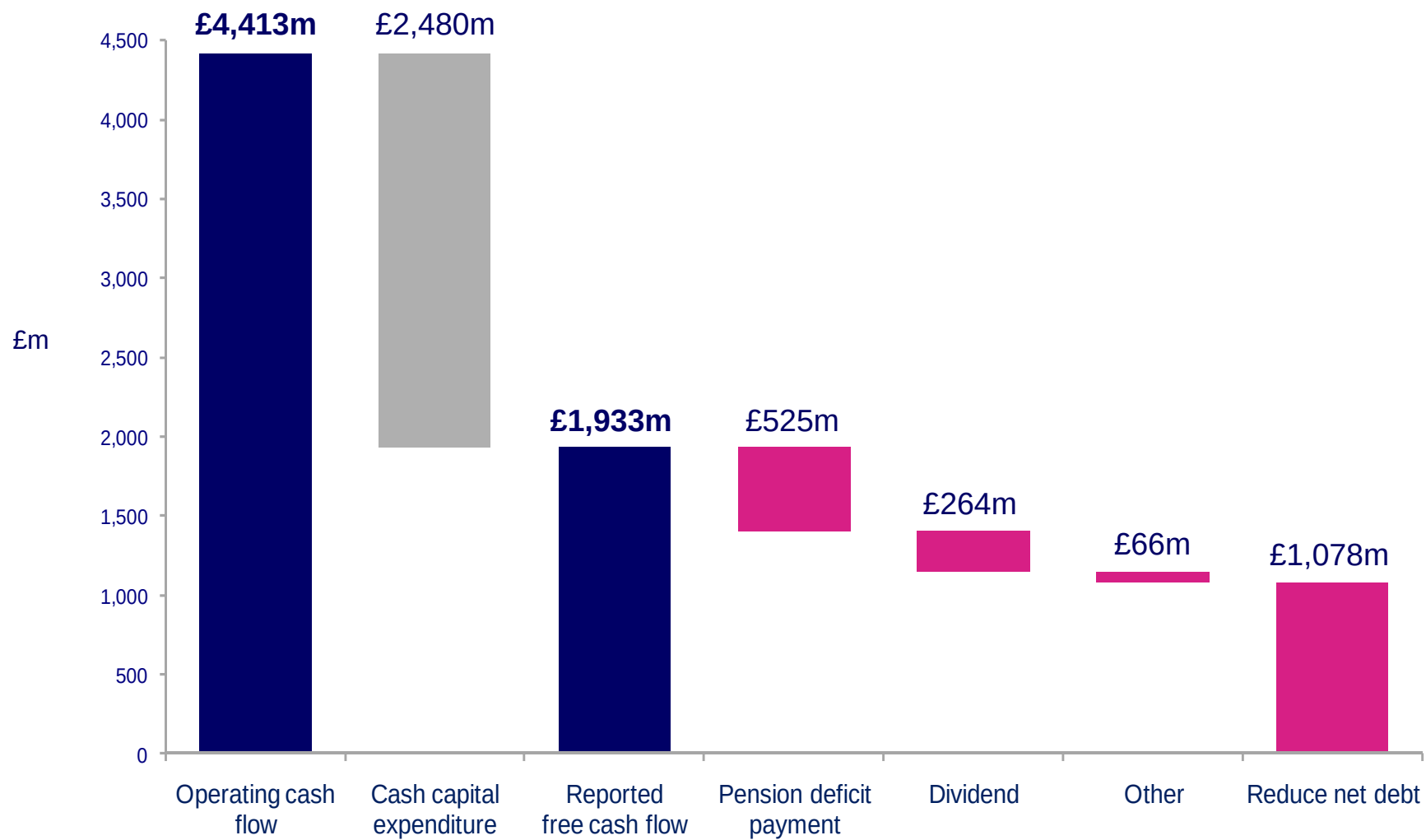
Business as usual

Extend focus to
wider supplier base

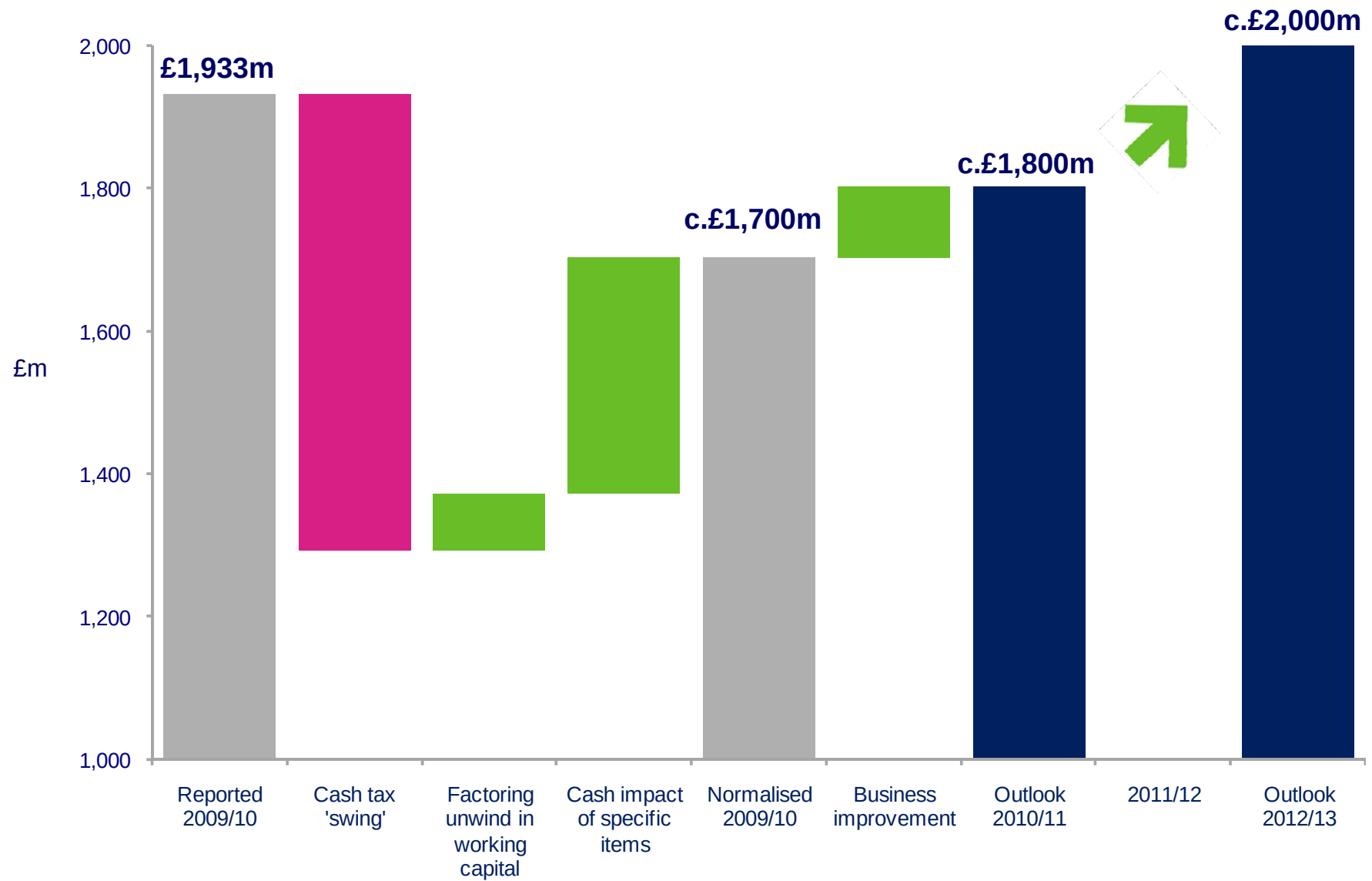
Applying best practice
across BT

Forensic approach

Cash utilisation 2009/10



Grow free cash flow*



* before cash specific items and pension deficit payments

Liquidity

- ▶ Available facilities of £2.2bn
- ▶ Cash and investments at March 2010 of £2.2bn
- ▶ Debt maturity of £2.5bn by March 2011 covered by existing facilities and investments
- ▶ No requirement to raise additional debt until Jan 2013
- ▶ Ability to take advantage of opportunities in the debt market
- ▶ Interest payments expected to decrease

Total term debt
and committed facilities*



* assuming no renewal or new facilities

Financial strategy

Progress made

More to do

Disciplined financial strategy



**Invest in
business**



**Reduce net
debt**



**Support
pension fund**



**Progressive
dividend**

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BT Group plc

Q&A