Bringing it all together

BT Group plc

Q3 2009/10 results

11 February 2010

Forward-looking statements caution

Certain statements in this results release 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: revenue, capital expenditure, operating cost reductions, EBITDA, free cash flow, net debt and dividends; the BT pension scheme; BT Global Services' continued delivery of cost savings; and roll out of fibre access and super-fast broadband.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

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Bringing it all together

BT Group plc

Ian Livingston

Q3 2009/10 group results

Revenue			
reported	£5,198m	4%	down
underlying		5%	down
Adjusted EBITDA[1]	£1,444m	11%	up
Total underlying costs[2]	down £645m	13%	down
Adjusted EPS[1]	4.6p	53%	up
Free cash flow[3]	£305m	up £337m	up
Net debt	£10,112m	down £948m	down

[1] before specific items, leaver costs, net interest on pensions and BT Global Services contract and financial review charges of £336m in Q3 2008/9

[2] underlying operating costs and capital expenditure, excluding BT Global Services contract and financial review charges of £336m in Q3 2008/9

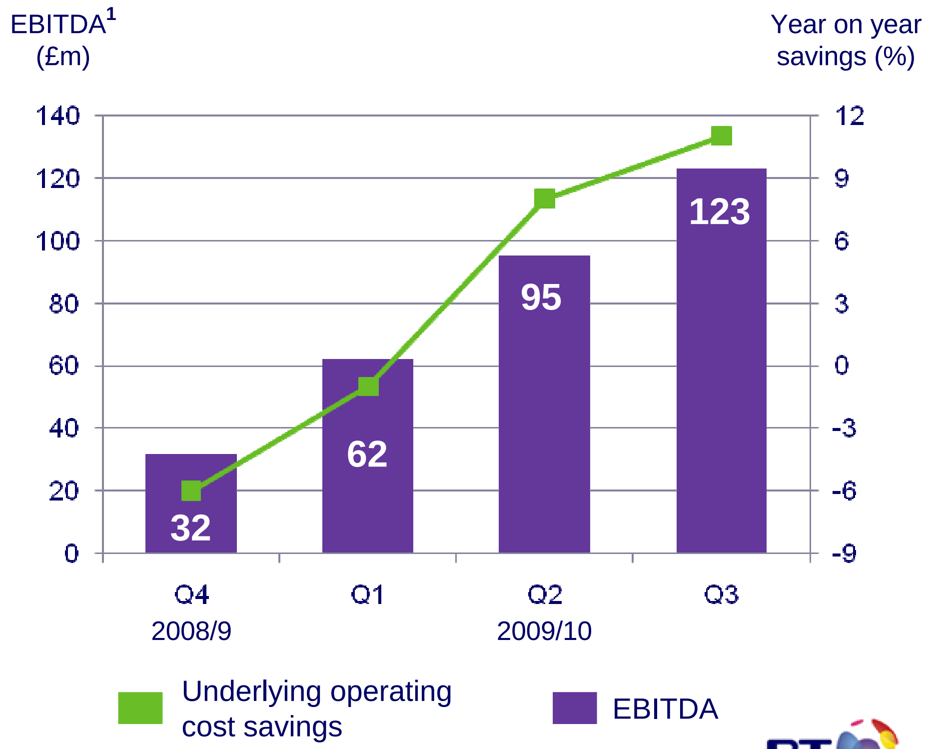
[3] before pension deficit payment of £525m but after the cash flows related to specific items

Q3 2009/10 line of business overview

Global Services

	Q3 2009/10	Change
Revenue	£2,118m	(3)%
EBITDA[1]	£123m	up £116m

- Underlying revenue down 5%
- Underlying operating costs down 11%
- Sequential EBITDA[1] improvement
- Order intake £1.6bn in quarter
- Appointment of Jeff Kelly as CEO



[1] before contract and financial review charges of £336m in Q3 2008/09

Q3 2009/10 line of business overview

Retail

	Q3 2009/10	Change
Revenue	£2,061m	(5)%
EBITDA	£464m	7%

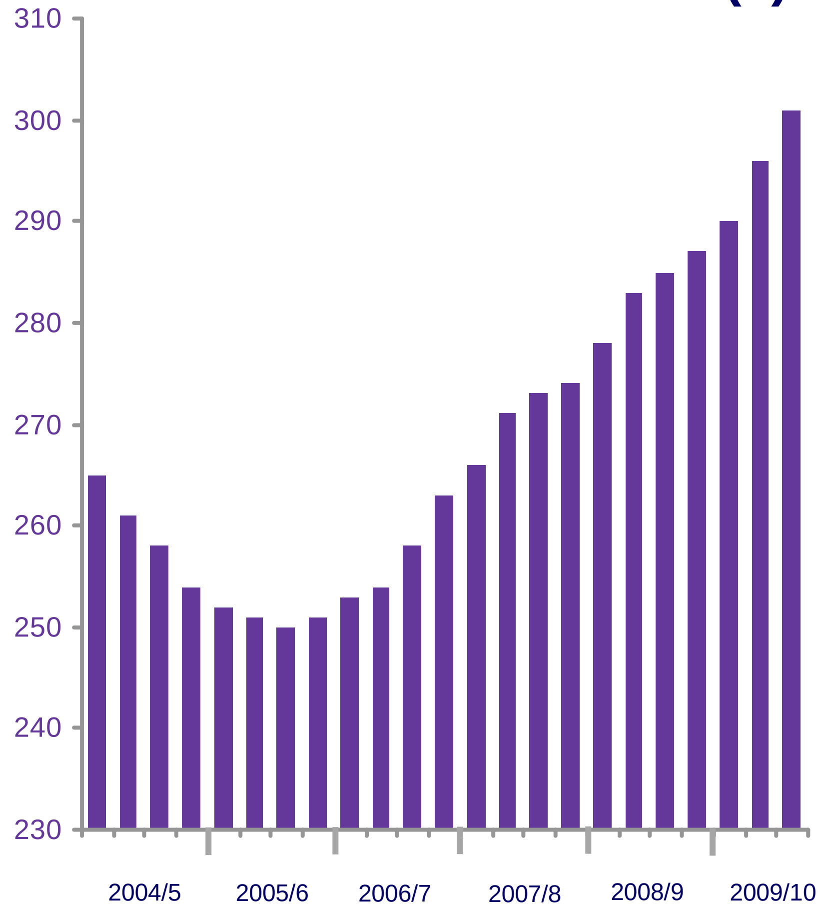
- Consumer down 4%
- Business down 8%, SME market tough
- Net operating costs down 9%
- EBITDA in line with guidance

Q3 2009/10 line of business overview

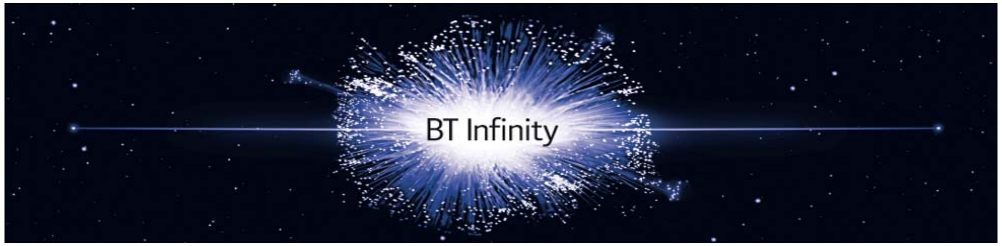
Retail

- 42% share of broadband net adds at 102,000
  - over 5 million Retail broadband customers
- Consumer ARPU up £5 to £301
- BBC Trust given provisional approval to Project Canvas
- 1m WiFi hotspots now enabled

Annual consumer ARPU (£)



Retail



- Option 1
  - 40Mbps download, 2Mbps upload
  - £19.99 p.m.
  - 20Gb monthly usage allowance

- Option 2
  - 40Mbps download, 10Mbps upload
  - £24.99 p.m.
  - unlimited usage allowance

Q3 2009/10 line of business overview

Wholesale

	Q3 2009/10	Change
Revenue	£1,092m	(8)%
EBITDA	£321m	0%

- Revenue decline reflects expected fall in MTR
- Net operating costs down 11%
- Further new long term contracts signed
- ADSL2+ >50% availability
- Wholesale NGA product introduced

Q3 2009/10 line of business overview

Openreach

	Q3 2009/10	Change
Revenue	£1,292m	(3)%
EBITDA	£513m	(4)%

- External revenue up 19% ➡ internal revenue down 8%
  - continued migration of CPs to LLU and WLR
  - significantly lower Ethernet pricing for industry
- Net operating costs down 2%
- High comparative EBITDA last year
  - EBITDA up sequentially over Q2

NGA update

- January 2010 — initial market deployment
- End 2010 — 4m premises passed
- Summer 2012 — 10m premises passed
  - c.25% FTTP
- FTTP — trials commenced
- Public-private sector investment in Northern Ireland
  – extends super-fast broadband footprint

NGA exchanges – late Summer 2010 (2.5m homes)

Phase 1
Muswell Hill
Whitchurch
Glasgow Halfway

Phase 2
Belfast Balmoral
Basingstoke
Bury
Caerphilly
Calder Valley
Canonbury
Cardiff
Chelmsford
Chingford
Dean
Didsbury
Edmonton
Enfield
Failsworth
Glasgow Western
Halifax
Heaton Moor
Hemel Hempstead
Leagrave
Luton
Oldham
Pudsey
Rusholme
Taffs Well
Thamesmead
Tottenham
Watford
Woolwich

Phase 3
Altrincham
Armley
Ashton-Under-Lyne
Barnet
Barry
Berkhamsted
Billericay
Birmingham,
Northern
Brentwood
Bristol North
Bristol West
Castleford
Cheetham
Chester-Le-Street
Chorlton
Dartford
Denton
Downend
Durham
East Herrington
Edinburgh
- Corstorphine
Edinburgh
- Craiglockhart
Elstree
Eltham
Fallings Park
Glasgow Bridgeton
Glasgow Giffnock
Glossop
Great Barr
Greenwich
Hainault
Headingley
Hetton-Le-Hole
Hinckley
Hoddesdon
Hornchurch
Hyde
Ingrebourne
Lea Valley
Leamore
Lisburn
Loughton
Low Moor
Manchester East
Moss Side
New Southgate
Nuneaton
Penarth
Ponders End
Pontefract
Prestwich
Shipley
Sidcup
Slade Green
St. Albans
Stalybridge
Stamford Hill
Stanford-Le-Hope
Swinton
Tettenhall
Urmston
Walkden
Walsall
Waltham Cross
Wednesbury
Wilmslow
Woodford

Phase 4a
Albert Dock
Andover
Aylesbury
Beauchief
Bicester
Blunsdon
Bothwell
Braintree
Bramhall
Brighton Hove
Caversham
Chandlers Ford
Chippenham
Coalville
Congleton
Crowthorne
Dalgety Bay
Didcot
Dunfermline
Earley
Earlsdon
Eastleigh
Fair Oak
Greenford
Guiseley
Harpenden
Hednesford
Henley On Thames
Kenilworth
Langley
Livingston Station
Llanedeyrn
Llanishen
Locksheath
Llanishen
Locksheath
Lofthouse Gate
Maidenhead
Merton Park
Mile End
Mitcham
Newport Pagnell
Newton Mearns
Ortons
Parsons Green
Penicuik
Portishead
Portsmouth Central
Putney
Ranmoor
Reading South
Sittingbourne
Skyport
Solihull
Stoneygate
Sutton Cheam
Tamworth
Toothill
Wanstead
Warwick
Willaston
Wimbledon
Wokingham
Worle

BT pension scheme – triennial funding valuation

- Funding valuation agreed with the Trustee
- Now being submitted to Regulator for formal review
  - initial view – substantial concerns with certain features
- Prudent actuarial funding deficit of £9.0bn
- Valuation performed for Trustee by independent actuary
- BT “median estimate” approach values the deficit at c.£3bn
- 17 year deficit recovery plan
  - Years 1 to 3 – payments of £525m p.a.
  - Year 4 – payment of £583m, increasing by 3% p.a.
  - Years 4 to 17 – payments equivalent to £533m p.a. in real terms

BT pension scheme – triennial funding valuation

	£bn
Market value of assets	31.2
Present value of liabilities	(40.2)
Funding deficit	(9.0)

Key assumptions

- Real discount rate – equivalent to an overall rate of 2.5%
- Inflation – increasing to 3.0% over the long term
- Mortality – increased by 2 years
- Does not reflect full expected benefits from pension review changes implemented from 1 April 2009
- Asset values have increased by c.10% in year to 31 December 2009

BT pension scheme – other features

- Net distributions trigger – if net distributions to shareholders exceed <u>total</u> pension contributions (i.e. c.£2.4bn) in three years to 31 December 2011 an additional equal matching contribution to the scheme is triggered

- Net cash proceeds from disposals less acquisitions trigger – if greater than £1bn in any 12 month period to 31 December 2011, additional contribution to the scheme of 1/3rd of net proceeds is triggered

- Negative pledge – comfort that future creditors will not be granted superior security to the scheme, subject to £1.5bn threshold

BT Group plc

Tony Chanmugam

Income statement

£m	Q3 2009/10	Q3 2008/9[1]	Change
Revenue	**5,198**	**5,437**	**(4)%**
POLOs	1,066	1,094	
Revenue (net)	4,132	4,343	
EBITDA[2]	**1,444**	**1,301**	**11%**
Depreciation & amortisation	(754)	(723)	
Operating profit[2]	**690**	**578**	**19%**

[1] post Q1 restatements
[2] before specific items, leaver costs, net interest on pensions and contract and financial review charges of £336m in Q3 2008/09

Income statement

£m	Q3 2009/10	Q3 2008/9[1]	Change
Operating profit[2]	**690**	**578**	**19%**
Net finance expense (ex. pension interest)	(223)	(259)	
Associates & JVs	(1)	16	
Profit before tax[2]	**466**	**335**	**39%**
Contract & financial review charges	-	(336)	
Leaver costs	(58)	(33)	
Pension interest	(69)	79	
Specific items (before tax)	(130)	36	
Reported profit before tax	209	81	
Tax	(31)	(19)	
Profit for the period	178	62	
Reported EPS	**2.3p**	**0.8p**	**188%**
Adjusted[2] EPS	**4.6p**	**3.0p**	**53%**

[1] post Q1 restatements

[2] before specific items, leaver costs, net interest on pensions and contract and financial review charges of £336m in Q3 2008/09

Free cash flow

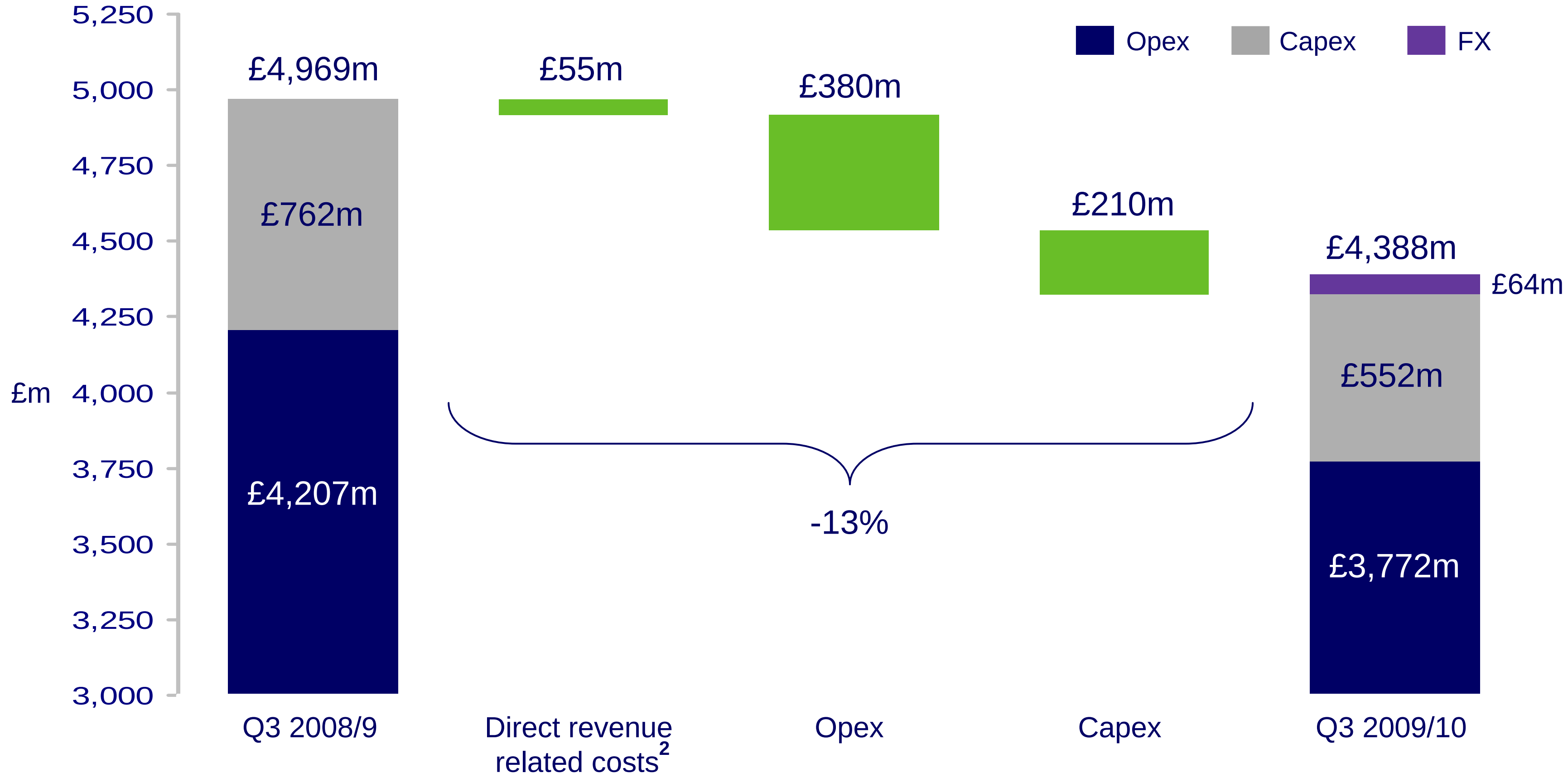
£m	Q3 2009/10	Q3 2008/9[1]	Change
EBITDA[2]	**1,444**	**1,301**	**143**
Leavers	(58)	(33)	(25)
Specific items	(130)	36	(166)
EBITDA	1,256	1,304	(48)
Interest	(314)	(305)	(9)
Tax	(44)	(111)	67
Capex	(548)	(789)	241
Working capital/Other	(45)	(131)	86
Free cash flow[3]	**305**	**(32)**	**337**
Net debt	**(10,112)**	**(11,060)**	**948**

[1] post Q1 restatements
[2] before specific items, leaver costs, net interest on pensions and contract and financial review charges of £336m in Q3 2008/09
[3] before pension deficit payment of £525m but after the cash flows related to specific items

Operating cash flow by line of business

£m	**Q3 2009/10**	Q3 2008/9	Change
Global Services	(31)	(267)	236
Retail	399	285	114
Wholesale	208	110	98
Openreach	333	286	47
LoB operating free cash flow	909	414	495
Other (tax, interest etc.)	(474)	(482)	8
Specific items	(130)	36	(166)
Group free cash flow	**305**	**(32)**	**337**

Q3 2009/10 group cost reductions[1]



- YTD opex savings of £900m + capex savings of £677m = £1,577m
- Capex spend weighted to Q4

[1] before specific items, leaver costs, depreciation & amortisation and other operating income
[2] POLOs and transit

2009/10 outlook

		Updated
Revenue[1] decline	3%-4%	
Capital expenditure	c.£2.6bn	c.£2.5bn
Total underlying cost[2] reductions	at least £1.5bn	
EBITDA[3]		c.£5.7bn
Free cash flow[4]	at least £1.6bn	around £1.7bn
Net debt	below £10bn	
Full year dividend	c.5% up	

[1] before specific items
[2] underlying operating costs and capital expenditure
[3] before specific items and leaver costs
[4] before pension deficit payment of £525m but after the cash flows related to specific items

A year on...

- Absolute cost savings
- Cash generation
- Transparency
- Predictability

...a lot more to do!

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Q&A