A better business

A better future

Bringing it all together

BT Group plc

Q2 2010/11 Results

11 November 2010

Bringing it all together

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Ian Livingston

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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: EBITDA; free cash flow; full year and future outlook; return to revenue growth; BT Global Services' progress and investment in Asia Pacific; take up of, and enhancements in, our TV offering; BT Business improving trends; demand for and roll out of fibre; the pension deficit and impact of the change to indexation; cost reductions; fibre roll out costs and future spend; and debt, interest payments and effective tax rates.

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Q2 & H1 2010/11 group results

	Q2 2010/11 Change	H1 2010/11 Change
Revenue[1]	3% ↓	4% ↓
EBITDA[1]	3% ↑	4% ↑
EPS[1]	16% ↑	16% ↑
Free cash flow	£170m ↓	£367m ↑
Net debt		£1.2bn ↓
Interim dividend		2.4p 4% ↑

Increased EBITDA and free cash flow outlook

[1] before specific items

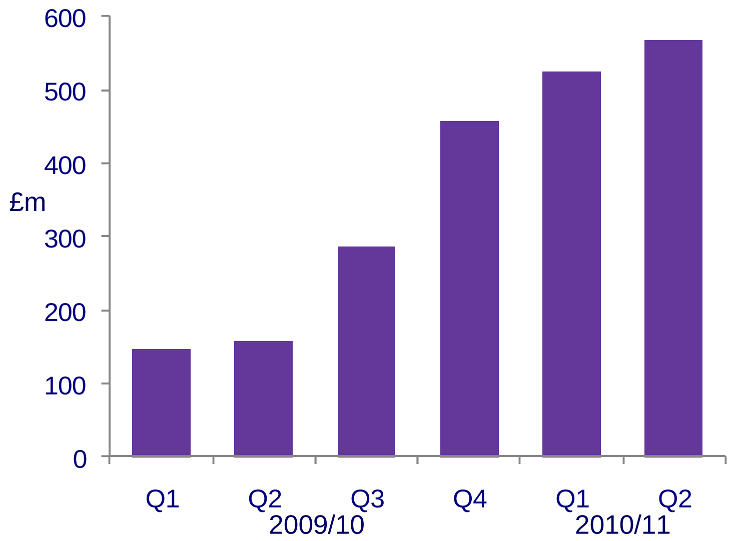
Q2 2010/11 line of business overview

Global Services

	Q2 2010/11	Change
Revenue	£1,991m	(2)%
EBITDA	£138m	45%
Operating cash flow	£(28m)	£75m

- Revenue down 2%
  - decline in UK calls and lines; lower wholesale volumes in Europe
- Net operating costs down 4%
- EBITDA up 45%
- Improvement in operating cash flow
  - H1 benefited from major customer receipt

Rolling 12 month EBITDA

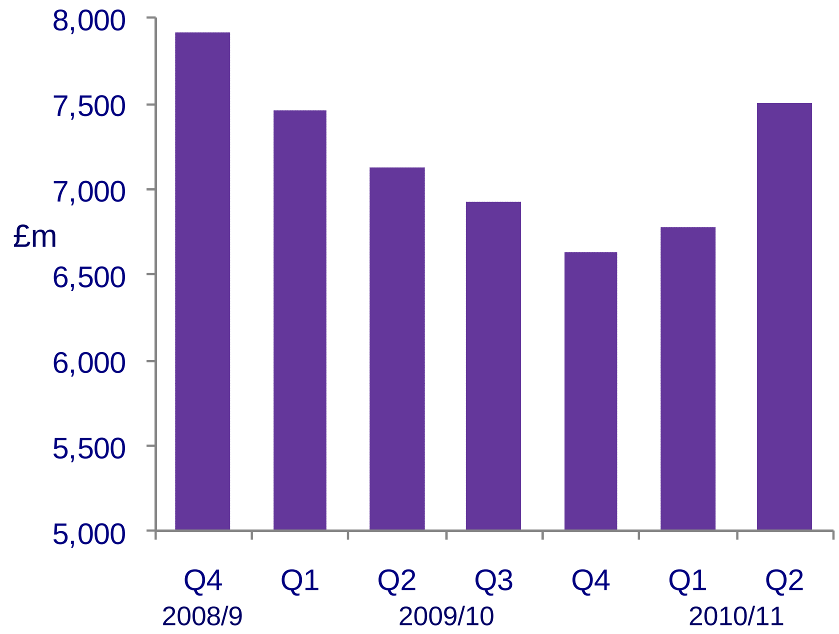


Q2 2010/11 line of business overview

Global Services

- Order intake of £2.1bn
  - e.g. DFTS, UBS, Nationwide, Anglo American, Ministerio de Defensa de España
- Public sector
  - DWP and DFTS contracts renegotiated and extended
  - MOU signed
  - continuing dialogue with government
- AsiaPac
  - investment in people and services
  - growing pipeline
- SmartReach
  - smart metering consortium comprising BT, Arqiva and Detica

Rolling 12 month order intake



Q2 2010/11 line of business overview

Retail

	Q2 2010/11	Change[1]
Revenue	£1,929m	(4)%
EBITDA	£414m	(8)%
Operating cash flow	£333m	£(97)m

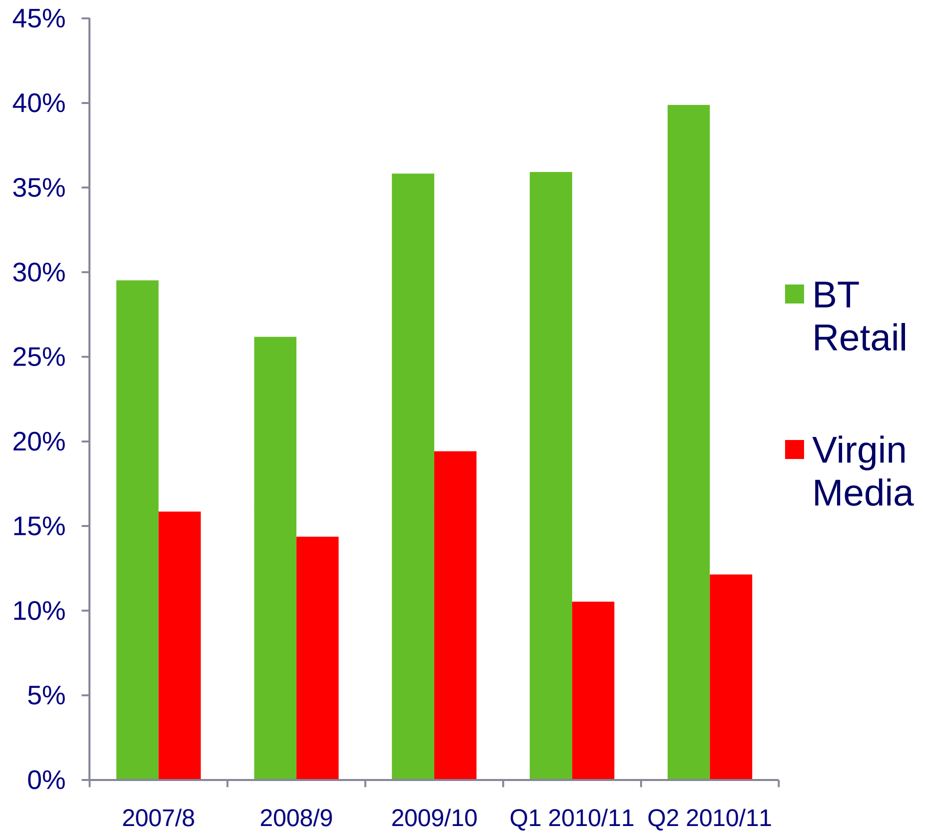
- Revenue down 4%
  - Consumer down 6%
  - Business flat
- Net operating costs down 3%
  - cost savings partially offset by planned incremental investments in subscriber acquisition, marketing and product development
- EBITDA down 8%
  - down 5% excluding one-off internal rebate last year

[1] prior year restated for customer account moves

BT Retail

- Consumer ARPU of £317[1]
  - up £3 due to uptake of more services
- Broadband net adds of 114,000
  - up c.60% YoY
  - 40% share of net adds including cable
  - c.1.6m customers on up to 20Mbps and 40Mbps services
- Growth in WiFi
  - over 2m WiFi hotspots
  - customer minutes more than doubled over last year
  - new BT Fon ad

Share of broadband net adds (inc cable)



[1] 12 month rolling consumer revenue, divided by number of lines

BT Vision

>500k BT Vision customers

Sky Sports 1&2 launched

Q2 2010/11

Full BBC iPlayer

3D movies

Faster HD downloads

H2 2010/11

Vision 2.0
enhanced & personalised user interface, interactivity, social media

Multicast
SD & HD linear channels

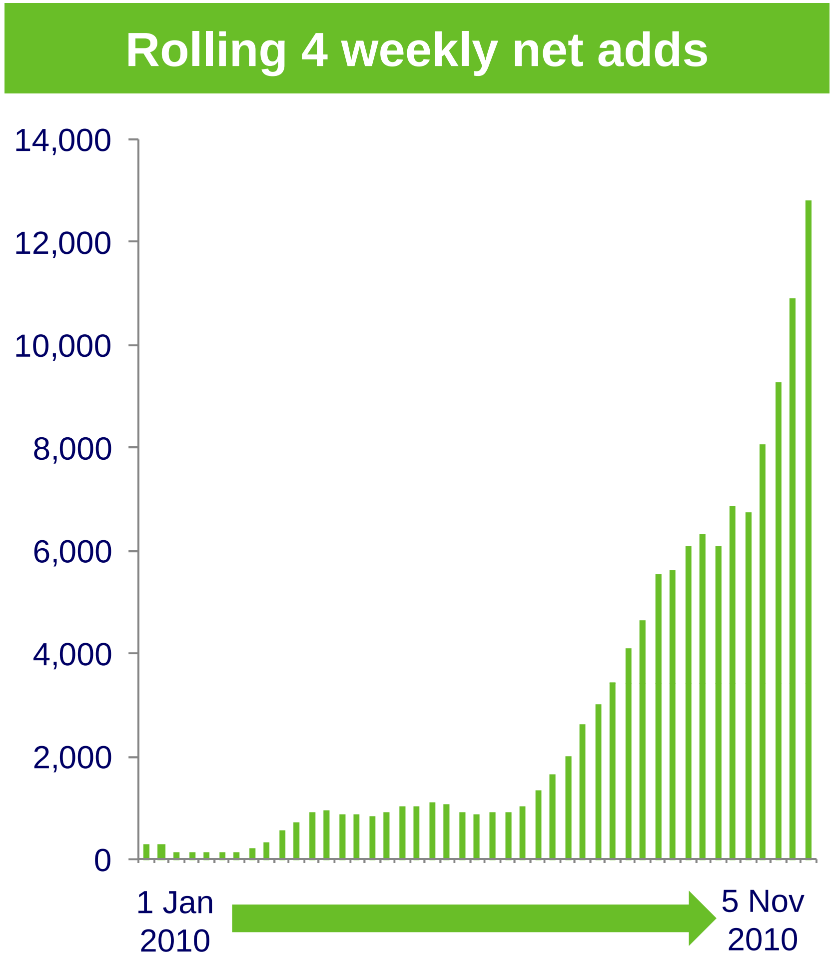
OnLive gaming

2011/12

BT's Vision of the future

BT Infinity

- Orders currently running at over 4,000 per week
  - c.38,000 customers connected
- Majority of sales are higher end product
- 'Race to Infinity'
  - Nationwide initiative to gauge local demand for fibre broadband
  - www.bt.com/racetoinfinity

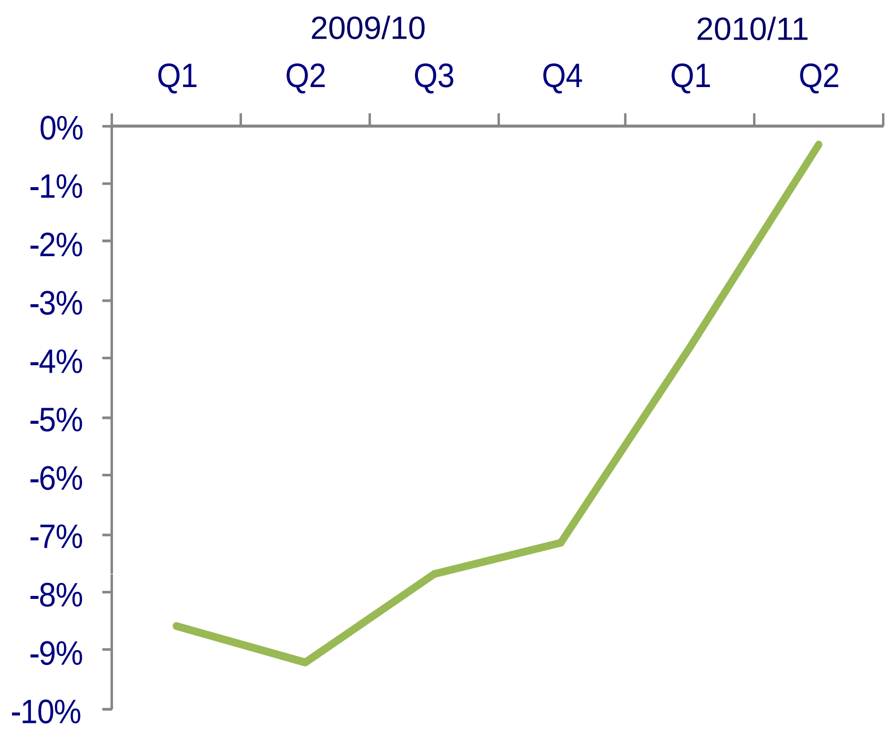


BT Business the ‘Brand for Business’

Improvement in revenue trends driven by:

- Reduction in line losses
  - over 40% improvement from last year
- Strength of One Plan offering innovative pricing and product bundles
- Double digit growth in IT services and mobility revenues

BT Business YoY revenue



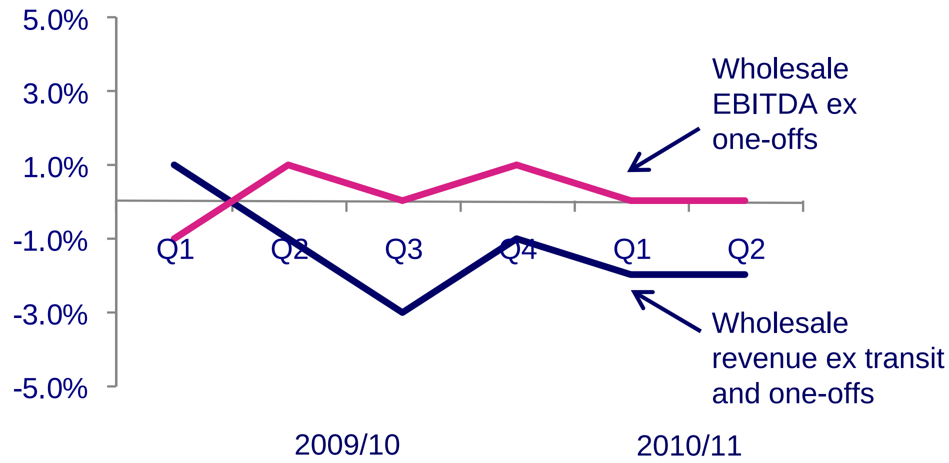
Q2 2010/11 line of business overview

Wholesale

	Q2 2010/11	Change
Adjusted revenue	£1,054m	(5)%[1]
EBITDA	£326m	(5)%[2]
Operating cash flow	£222m	£10m[2]

- Adjusted revenue down 5%
  - down 2% excluding transit and regulatory charge
  - managed network services 23% of external revenue
- Net operating costs down 5%[1]
- Revenue and EBITDA excluding transit and one-offs broadly stable

Revenue and EBITDA trend



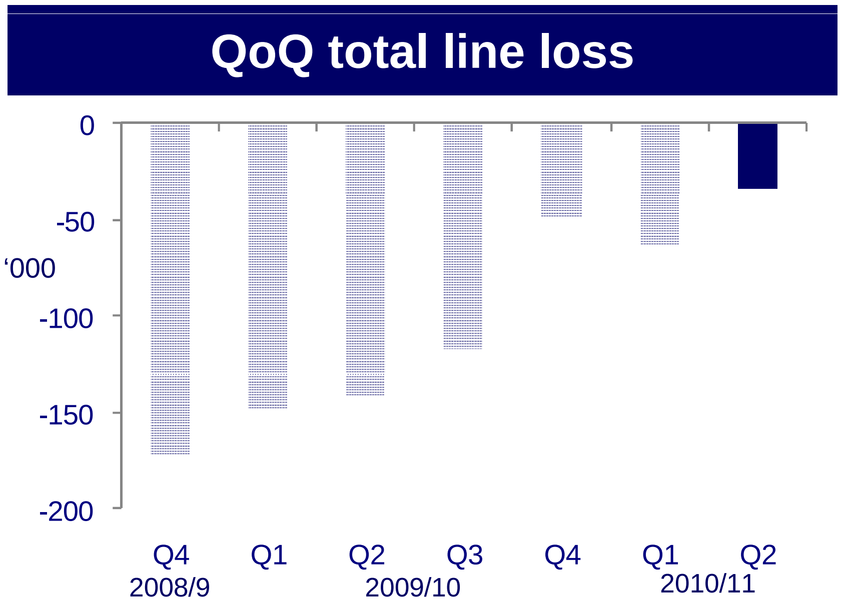
[1] prior year restated for customer account moves and adjusted for changes in the internal trading model
[2] prior year restated for customer account moves

Q2 2010/11 line of business overview

Openreach

	Q2 2010/11	Change
Adjusted revenue	£1,235m	flat[1]
EBITDA	£532m	5%
Operating cash flow	£255m	£(25)m

- Adjusted revenue flat
  - external revenue up 22% reflecting growth in LLU
  - reduction in line loss
- Net operating costs down 3%[1]
- EBITDA up 5%
- Cash flow reflects investment in fibre roll out programme



[1] prior year adjusted for changes in the internal trading model

Q2 2010/11 line of business overview

Openreach

- 3m premises passed in fibre roll out
  - 25 CPs trialling or selling products at Openreach and BT Wholesale level
- Phase 6 exchange areas announced
  - taking total announced coverage to c.7m premises
- Private/public investment
  - Cornwall £132m to fibre up to 90% of region
  - Northern Ireland 60% of roll out completed
  - local initiatives
- FTTP
  - >100Mbps downstream, 30Mbps upstream
  - pilots in Bradwell Abbey (Milton Keynes), Highams Park (London) and Ebbsfleet (Kent)

Pensions

- IAS 19 deficit - £3.8bn net of tax (31 Mar 2010: £5.7bn)
  - assets - £34.9bn (31 Mar 2010: £35.3bn; 31 Dec 2008: £31.3bn)
  - £2.9bn (£2.1bn net) reduction in deficit from change to CPI indexation
- Median estimate deficit - £0.2bn
  - discount rate: 5.8% nominal
2.7% real
- Crown Guarantee ruling
- Pensions Regulator discussions ongoing

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

A better future

Customer service delivery → **Cost transformation** → **Investing for the future** → **A better business**

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Progress made

More to do

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BT Group plc

Tony Chanmugam

Income statement

£m	Q2 2010/11	Q2 2009/10	Change
Revenue[1]	**4,977**	**5,122**	**(3)%**
POLOs	970	1,040	
Revenue (net)[1]	4,007	4,082	
EBITDA[1]	**1,452**	**1,415**	**3%**
Operating profit[1]	**715**	**656**	**9%**
Net finance expense[1]	(224)	(225)	
Profit before tax[1]	**496**	**440**	**13%**
Tax[1]	(98)	(103)	
EPS[1]	**5.1p**	**4.4p**	**16%**
Specific items[2]	2	91	

[1] before specific items
[2] net of specific tax

Free cash flow

£m	Q2 2010/11	Q2 2009/10	Change
EBITDA[1]	**1,452**	**1,415**	**37**
Interest[1]	(163)	(163)	-
Tax[1]	(10)	(14)	4
Capex	(602)	(555)	(47)
Working capital/other	(101)	(139)	38
Free cash flow pre specifics	**576**	**544**	**32**
Specific items	(41)	161	(202)
Free cash flow post specifics	**535**	**705**	**(170)**
Net debt	**8,704**	**9,878**	**1,174**

[1] before specific items

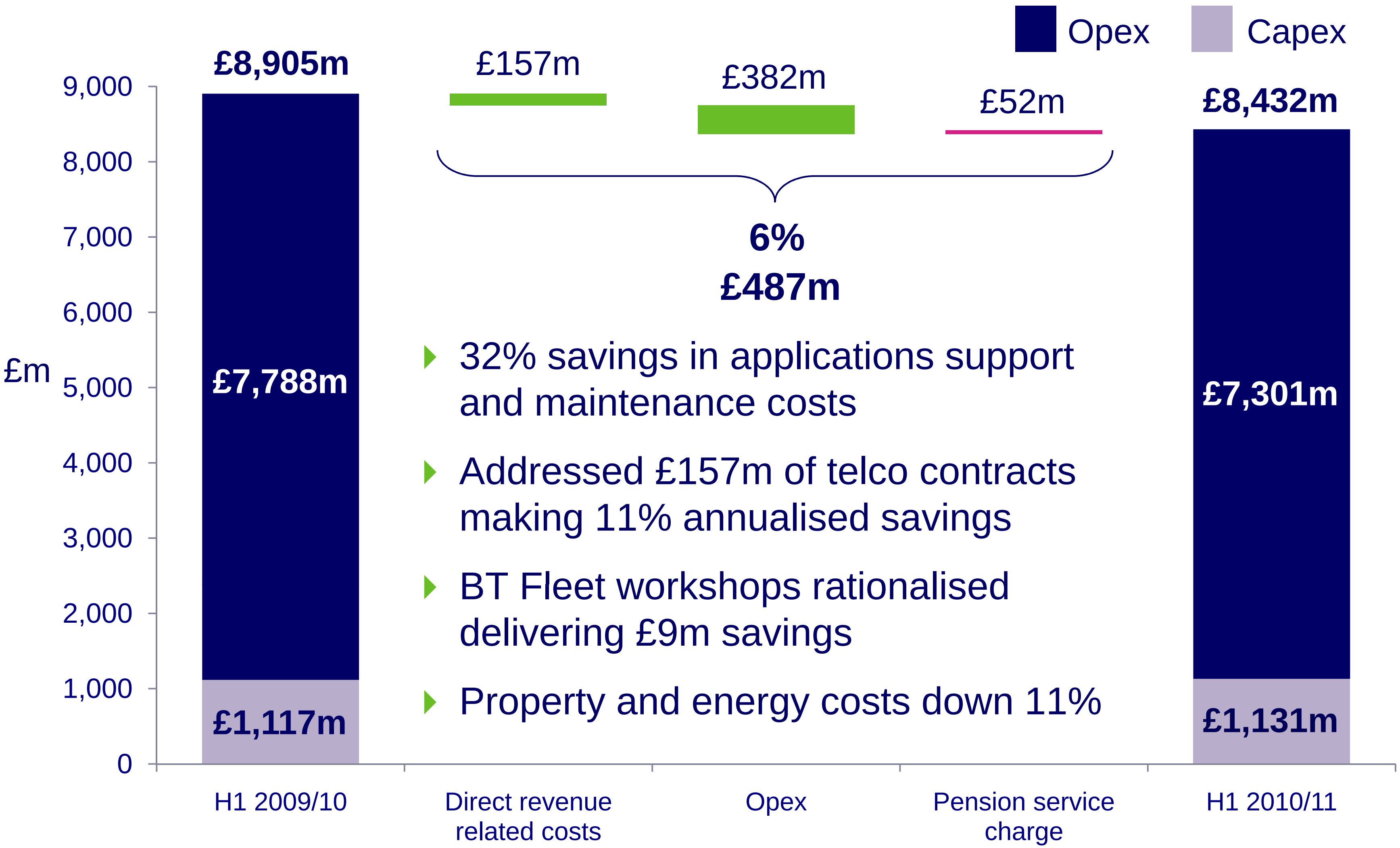
2010/11 outlook raised

- Adjusted EBITDA[1] expected to be around £5.8bn
- Expect to achieve 2012/13 free cash flow[2] outlook of £2bn in 2010/11
- Free cash flow[2] in 2011/12 and 2012/13 expected to be above £2bn
- 2011/12 to 2012/13 outlook otherwise unchanged

[1] before specific items

[2] before pension deficit payment and cash specific items. Specific items are expected to result in cash outflow of around £200m in 2010/11

H1 2010/11 group cost reductions[1]



- 32% savings in applications support and maintenance costs
- Addressed £157m of telco contracts making 11% annualised savings
- BT Fleet workshops rationalised delivering £9m savings
- Property and energy costs down 11%

c.£900m opex reduction in 2010/11

[1] before specific items, depreciation & amortisation and other operating income

Fibre roll out costs

- Currently on track against spending plans
  - by end 2010/11 one quarter of total fibre spend for delivery of one third of footprint
- Good degree of confidence in future spend
  - contractually committed equipment prices
- Future spend will be contained within annual c.£2.6bn total capex

Debt and tax

Debt

- Cash and investments of £2.7bn at Sept 2010
  - total debt of £2.5bn maturing by Feb 2011
- Committed facilities of £2.2bn
- Reduction in gross debt will lead to lower cash interest payments

Tax

- 2010/11 effective rate of 22% due to tax efficiency
- 2011/12 to 2012/13 we expect effective tax rate to trend towards statutory rate
- Higher cash tax payments will offset lower interest payments

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Progress made

More to do

BT Chat for Children Day Children in Need

Friday 12th November 2010

BT Chat for Children Day