A better business
A better future

BT Group plc

Investor Day
13 May 2010
Part 1
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.

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.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT’s operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services not being realised; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the BT Global Services restructuring programme not being achieved; the outcome of the Pension Regulator’s review; and general financial market conditions affecting BT’s performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.
BT Group plc  BT Retail

Investing for the future
13 May 2010

Gavin Patterson, CEO
Agenda

- Introduction
- Strategic priorities
- Customer service
- Cost transformation
- Investing for the future
  - Consumer
  - Business
  - Enterprises
  - Ireland
Introduction the market leader in fixed communications

- Leader in fixed lines, voice and broadband markets
  - 61% share of consumer lines
  - 49% share of consumer calls
  - 27% share of consumer broadband
  - 51% share of core* SME markets

- A diverse business

- Large customer base
  - 1m SME customers
  - 13m consumer customers

- A strong and trusted brand

*fixed line voice and data

2009/10 revenue
£8,297m

2009/10 EBITDA contribution
Introduction leading the market in key brand attributes

<table>
<thead>
<tr>
<th>Brand</th>
<th>Trust (60%)</th>
<th>Reliability (60%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Virgin Media</td>
<td>33%</td>
<td>36%</td>
</tr>
<tr>
<td>Sky</td>
<td>18%</td>
<td>20%</td>
</tr>
<tr>
<td>TalkTalk</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>

*Source: Millward Brown, March 2010 “Which of these providers do you trust/offers a reliable service?”

% of respondents selecting brand
Introduction profit performance

- Lower costs through increased efficiency
- Improving customer service
- Optimising margins

Track record of increasing profits
Introduction stabilising the customer base

We have been losing customers
- Competitors advantaged by regulation
- Competitors with no existing base
- Recession impacted SME markets

Reversing the trend
- Regulatory freedom
- Innovation in our core markets
- Extending propositions into adjacent markets
- Business performance getting stronger

Economic improvement
- Greater propensity for SMEs to invest

Quarterly net consumer line loss

<table>
<thead>
<tr>
<th>2008/09</th>
<th>2009/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4</td>
<td>Q1</td>
</tr>
<tr>
<td>35% YoY reduction in rate of net line loss</td>
<td>000's of lines</td>
</tr>
</tbody>
</table>
Strategic priorities strengthening competitive position

- **Regulation loosening**
  - Product bundling
  - Targeting offers to specific segments
  - Prospect of 90% reduction in MTR
  - Freedom in broadband ‘market 3’

- **Innovating in the core**
  - Re-inventing the home phone
  - Roll out of ADSL2+ broadband network
  - Fibre creates a level playing field with LLUOs

- **Growing in adjacent markets**
  - New TV platform through project Canvas
  - Access to Sky Sports on regulated terms
  - Opportunities in IT services for SMEs

- **Performance getting stronger**
  - Better customer service standards
  - Lower costs through simplification
Strategic priorities investing for the future

- Get things ‘Right First Time’ to be number one for customer service
- Standardise, simplify and automate to cut costs
- Reinforce core voice and broadband through differentiation
- Build a scale TV business exploiting BT’s broadband network
- Build our SME IT business by enhancing our capabilities
Customer service improving

Focus on ‘Right First Time’ has reduced failure by c.60% over 2 years

- Calls answered in 30 seconds
- Single simplified bill for all services
- Focused performance management
- Resolving issues on one contact without transfers
- Cutting down on repeat calls

One contact resolution*

<table>
<thead>
<tr>
<th>Billing &amp; enquiries</th>
<th>Repair</th>
<th>After sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>19%</td>
<td>33%</td>
<td>30%</td>
</tr>
</tbody>
</table>

*Calls resolved in one call – no transfer, hand-off line or repeat in 7 days
Apr-09 to Mar-10 improvements

Propensity to call*

*Propensity to call in first 28 days after order entry – all desks. Apr-09 to Mar-10 improvements

More to do
Customer service customers are noticing the difference

High service expectations
Which of these landline providers has better customer service than other brands?*

- BT: 29%
- Virgin Media: 18%
- Sky: 11%
- TalkTalk: 5%

...are being met
Overall how satisfied or dissatisfied were you with the way BRAND dealt with you on this occasion?*

- BT: 71%
- Virgin Media: 68%
- Sky: 62%
- TalkTalk: 63%

- Consumer complaints reduced by around half in the last 18 months
- Net promoter index almost doubled in 2009/10

* Source: Millward Brown, 6 months to March 2010
Cost transformation track record of cost reduction

Driven by operational focus

- Getting things ‘Right First Time’
- One contact resolution
- Reducing complaints
- Simplifying the portfolio
- Reducing total labour resource
- Renegotiating supplier contracts
- Improving debt management

YoY operating cost reductions*

* adjusted for acquisitions
Cost transformation more to do

Continued focus

More opportunities
- Automating processes
- Better agent diagnostics
- Optimising engineering visits
- Reducing performance variation

Approaching best in class costs
- Still more to do

Costs as percentage of revenue*
Consumer maintaining voice leadership

Voice remains important
- 13m customers, strong market position

Economic metrics strong
- ARPU up through cross-sell and up-sell
- Churn rate improving
- More customers on higher value packages
- More customers on contracts

Future plans
- Triple-play bundles
- Targeted offers for customers segments
- Differentiating our proposition
  - re-inventing the home phone for the future
The new smartphone for the home

- All in one home communications device
- Bundled and integrated with our voice and broadband services
- Ability to drive usage in the core business
Consumer doing well in a highly competitive broadband market

Strong performance
- Five consecutive quarters of >40% share of broadband net adds*
- Net adds in Q4 highest for 8 quarters and best in market

Best connected
- Unbeatable wireless coverage in home
- Best Wi-Fi coverage outside the home with 1.5m hotspots
- Consistently faster** than other main providers, including TalkTalk and Sky

Most complete
- Everything that customers need included: security, storage, service

* Source: Epitiro 2010
Consumer **successful two-brand strategy**

**Plusnet for price sensitive customers**

- Re-launched February 2009
- Highly competitive price points, from £6.49pm
- Costs contained through
  - on-line sales and support
  - low cost operations
- Strong attachment rate – c.50% now take voice services as well
- Award winning, highly recommended by existing customers

Customer base has increased by c.20% in 12 months

<table>
<thead>
<tr>
<th>Average weekly net adds</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 2009 557</td>
</tr>
<tr>
<td>March 2010 2,112</td>
</tr>
</tbody>
</table>

- **average weekly net adds**
  - April 2009: 557
  - March 2010: 2,112

- **Customer base '000**
  - April 2009: 200
  - March 2010: 350
Consumer BT Infinity positioned to drive share

Changes the way customers use broadband

- Internet in an instant
- Multiple users and devices
- Simultaneous applications
- Rich content and communication
- Home working
- Faster upload capabilities

Positive launch

- Local and national marketing
- Customer base rising fast
- Strategic dilemma for competitors

<table>
<thead>
<tr>
<th>BT Total broadband Option 2/3</th>
<th>£20.99 to £24.99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upgrade incentive</td>
<td>£19.99 to £24.99</td>
</tr>
<tr>
<td>Switch incentive</td>
<td>£28 to £38</td>
</tr>
<tr>
<td>LLU</td>
<td>20Mb</td>
</tr>
<tr>
<td>Cable 50Mb</td>
<td>40Mb</td>
</tr>
</tbody>
</table>
BT Vision 2.0 / Canvas

- Bringing together TV and broadband
**Consumer next generation TV**

**Today**
- BT Vision
  - Freeview
  - On-demand TV and films
  - ESPN Sports
  - HD download

**Vision 2.0**
- BBC iPlayer on BT Vision
- More HD content, enhanced distribution
- Advanced recommendation and search

**Project Canvas**
- Integrated on-demand and linear TV
- Catch-up and archive PSB content
- Open platform

**Premium Pay TV**
- Premium channels (e.g. sports)
- ‘Must have’ linear channels
Consumer premium sports addresses market opportunity

A large unsatisfied demand for competitively priced premium sports

- 59% feel they are paying too much but have no choice*
- 55% want premium sports without paying for other channels*
- 50% would consider buying if price came down*

* Source: incite "Pay TV review", Jan 2010
Consumer going to market with premium sports

BT will compete aggressively in this market

- Distributed over DTT to BT Vision/Freeview boxes
- Premium channels unbundled from basic
- Competitively priced premium sports
- A compelling triple-play bundle
- Launch in time for 2010/11 Premiership season

Premium sports pricing*

£ per month

Minimum typical price for premium sports today

Probable range of premium sports pricing from BT

£36

under £20

Minimum typical price for premium sports today

* Including two premium sports channels
Consumer partnering with OnLive to launch online gaming

Great for customers
- No expensive hardware
- Extensive catalogue of games
- Flexible payment models
- Served direct to TV or PC

Great for BT
- Enhances premium broadband positioning
- Strong partner with compelling proposition
- Entry to c.£2bn market
- Leverages cloud capabilities
Business a growth opportunity

Challenging conditions during recession
- More insolvencies and downsizing
- Less investment in services and equipment

Building on strengths
- Large customer base
- Largest distribution / reach
- Breadth of portfolio
- Investment in fibre and Ethernet
- Trusted brand

Strategy re-focused
- Exploit the opportunity in the core
- Expand in mobility
- Expand into IT services market
Business pricing and bundling driving demand

Example – BT One Plan Inclusive

- Launched Autumn 2009, a first in the UK
- Inclusive bundle of lines, fixed and mobile calls and broadband
- Attractive headline prices
- Acquisition up 39% since launch
  - 70% of sales now take One Plan
- ARPU up through up-sell
  - 53% take unlimited calls bolt-on
  - 39% take broadband
Business mobile is a growth opportunity

The mobile opportunity

- Many SMEs want to buy fixed and mobile together
- BT brand, channels and product range work well in this market

We are therefore

- Adding mobile calls to product bundles
  - 46% of corporate One Plan customers now take mobile (26% last year)
- Sales up 23% in 2009/10 in a flat market
- Building converged mobility propositions
- Exploiting our cost advantage in WiFi vs 3G data

‘Which?’ award winning post-pay mobile in 2010
Business plan to grow SME IT services

Attractive market
- £19bn, long run growth of 3% p.a.
- No strong market leadership brand
- Moving on-line – cloud solutions and managed services

BT has a strong foothold
- Over £300m revenue
- Moving from data networking to networked IT services
- Capabilities in place through BT Engage IT, dabs
- Gold-accredited supplier with Microsoft, Cisco, HP, IBM
- Growing mix of annuity revenue

Where we are investing
- Private cloud solution with Cisco
- SaaS propositions in BPOS and CRM (Salesforce)

Why SMEs are buying from BT
- Scale partner with expertise and close engagement

* Including Lynx and Basilica acquisitions
Enterprises mature and growing businesses

- Six stand alone businesses
- Revenue up 2% in 2009/10
- EBITDA contribution up 6% in 2009/10
- £73m of cost transformation in the last two years

2009/10 BT Enterprises (incl. Openzone) revenues £739m

- Conferencing: 23%
- Directories: 14%
- Payphones: 13%
- Expedite: 6%
- Redcare: 3%
- Openzone: 3%
Enterprises Conferencing and Openzone contributing to growth

**Conferencing**
- Revenue up 8% year on year, 52% outside UK
- Global video market leader with c.16% market share
- Largest global partner by revenue for Polycom and Cisco/Tandberg in video equipment

**Openzone**
- Revenue up 29% year on year
- Market leader – 1.5m* hotspots in the UK & Ireland
- More than doubled traffic in 2009/10 to 1bn minutes with total data volume tripling in the year
- Provide 3G offload to 3 MNOs through public hotspots
- Unique differentiator for our BT broadband customers

* Including BT Fon and Business hub hotspots
Ireland outperforming the competition in very tough markets

Strong results

- Reduced SG&A costs by 11%
- Grew IT services by 20% in a market declining by 18%

Partner of choice for corporate and wholesale contracts in RoI

- O₂ wholesale contract
- 3 - national broadband scheme
- Vodafone strategic partnership

Contract for fibre rollout across Northern Ireland

Continued focus on cost control and contract wins

YoY EBITDA* growth

* Internally reported figures
Key messages

- Improving revenue trends
- Strong and stable customer base
- Improving customer service
- Continued cost reductions
- Market leader in broadband and fibre
- An innovative TV proposition
- Growth in IT services
- A lot more to do
The engine room of BT
13 May 2010

Clive Selley, CEO BT Innovate & Design
Agenda

- Introduction
- Our transformation
- Business outcomes
- Technology innovation
- Summary
- Q&A
Introduction

**BT Innovate & Design**
- Research, innovate, design and build the IT, networks and processes
- Five global development centres
- c.16,600 people

**BT Operate**
- In-life management of IT and networks
- Second and third-line support
- Follow-the-sun global data and service centres
- BT’s energy agenda and consumption
- c.16,900 people

We deliver networks and IT for BT and its customers
Our transformation objectives

- Improve customer experience
- Reduce cost
- Accelerate speed to market
Our transformation process

- **Innovate and decide**
  - Viable business case
  - Strict demand management

- **Design and develop**
  - Agile process of 90 day cycles & reuse
  - Cost/quality/speed

- **Deploy**
  - Error free deployment
  - On-time/cost/quality/scope at launch

- **In-life management**
  - Plan, build and deliver customer orders
  - ‘Right First Time’/Reliability

All BT’s products, contracts, & customer experience improvements

Driving improvement through measures
Our transformation IT platforms

**Past**
- Thousands of systems
- Hundreds of vendors
- Few measures
- Complex models

**Present**
- 24 standard global platforms
- 8 strategic vendor partnerships
- Produced 30% more software for the same cost
- Launched over 500 reusable modules (SDK)

**Future**
- Fewer platforms using standard software modules
- Continued YoY efficiency improvements
- Drive automation and customer self-service

Continual improvement of our systems estate
**Our transformation networks**

### Past
- Multiple, disparate network in UK and across the globe
- Up to 8Mbps broadband
- High-cost access solutions

### Present
- Delivered and exploited the core IP/MPLS UK network
- Ethernet - biggest UK footprint
- High-speed broadband roll-out
- Lower cost global access

### Future
- Single global IP/MPLS network
- Closing down legacy networks
- Super-fast broadband to 2/3 of the UK
- Content distribution network to support media

**Continual improvement of our global networks**
**Business outcomes people**

**Right skills**
- Up-skill programmes to convert from legacy skills

**Right people**
- Vendor management
- Outsourcing where appropriate
- Focus on core work

**Right places**
- Created 5 development centres
- Consolidating to c.30 – 40 global service centres to support BT Global Services customers
Business outcomes reduced cost

- £700m reduction in cost base over the past 2 years
  - Main contributor is people strategy
  - £35m reduction in data centre costs through virtualisation

21% reduction over 2 years

Continued reductions projected over next three years

Achievements are sustainable
37% improvement in development unit cost over 2 years
31% reduction in cost per test point over 2 years
28% increase in software volumes in the past year

Doing more for less
Business outcomes improved quality

- Over the last two years
  - IT incidents reduced by 33%
  - Network incidents reduced by 23%
  - Average weighted outage impact reduced by 67%
  - Order lead times reduced by as much as 50%
Benchmarking costs saving opportunity

- Benchmarking identifies that we have further cost reduction opportunities
- We have reduced cash costs by c.14% vs. industry average c.7%
- More to do e.g.
  - increase reuse
  - further rationalisation:
    - systems and network
    - service centres
    - vendors

2008/09 BTID and BTO IT and networks cash cost % of domestic fixed line revenue

Source: Oliver Wyman benchmarking of BTID & BTO
Best is based upon the average of the best quartile
Technology innovation supports our future

**Benefitting our business**
- c. 75% research is driven by customer facing businesses
- 25% for the future

**Protecting our future**
- Continuing strong record of patented invention e.g.
  - techniques to deploy fibre at low cost and at scale
- Portfolio of 6,400+ patents

**Commercial advantage**
- New opportunities e.g.
  - technology for BT’s Wi-Fi products and services
  - network optimisation technology that improves bid win prospects

Using innovation to gain advantage
Key messages

- BT Innovate & Design and BT Operate
- The engine room of BT... delivering for BT’s customers
- Improving productivity
- Improving quality
- Reducing cost
- Improving delivery of our future
- A lot more to do
BT Group plc BT Innovate & Design and BT Operate

Q&A