A better business

A better future

BT Group plc

Q4/full year 2009/10 Results and Investor Day

13 May 2010
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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.

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.
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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>adjusted$^1$</td>
<td>£20,911m</td>
<td>2%</td>
</tr>
<tr>
<td>underlying</td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>**Adjusted EBITDA$^1$</td>
<td>£5,781m</td>
<td>6%</td>
</tr>
<tr>
<td>**Adjusted EPS$^1$</td>
<td>18.6p</td>
<td>16%</td>
</tr>
<tr>
<td>**Free cash flow$^2$</td>
<td>£1,933m</td>
<td>up £1,196m</td>
</tr>
<tr>
<td><strong>Net debt</strong></td>
<td>£9,283m</td>
<td>down £1,078m</td>
</tr>
</tbody>
</table>

$^1$ 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

<table>
<thead>
<tr>
<th></th>
<th>Outlook at May 2009</th>
<th>Outlook at February 2010</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue(^1) decline</td>
<td>4% - 5%</td>
<td>3% - 4%</td>
<td>2%</td>
</tr>
<tr>
<td>Underlying cost reductions(^2)</td>
<td>&gt;£1bn</td>
<td>c.£1.5bn</td>
<td>£1,752m</td>
</tr>
<tr>
<td>Adjusted EBITDA(^1)</td>
<td>-</td>
<td>c.£5.7bn</td>
<td>£5,781m</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>c.£2.7bn</td>
<td>c.£2.5bn</td>
<td>£2,533m</td>
</tr>
<tr>
<td>Free cash flow(^3)</td>
<td>&gt;£1bn</td>
<td>c.£1.7bn</td>
<td>£1,933m</td>
</tr>
<tr>
<td>Net debt</td>
<td>-</td>
<td>&lt;£10bn</td>
<td>£9,283m</td>
</tr>
</tbody>
</table>

\(^1\) 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

<table>
<thead>
<tr>
<th></th>
<th>Global Services</th>
<th>Retail</th>
<th>Wholesale</th>
<th>Openreach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>2%</td>
<td>4%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA(^1)</strong></td>
<td>453%</td>
<td>6%</td>
<td>flat</td>
<td>4%</td>
</tr>
</tbody>
</table>

\(^1\) 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

<table>
<thead>
<tr>
<th></th>
<th>Global Services</th>
<th>Retail</th>
<th>Wholesale</th>
<th>Openreach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1%</td>
<td>4%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
<td>▲</td>
<td>▲</td>
<td>▶️</td>
<td>▶️</td>
</tr>
<tr>
<td></td>
<td>40%</td>
<td>12%</td>
<td>flat</td>
<td>flat</td>
</tr>
<tr>
<td><strong>Operating cash flow</strong></td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
</tr>
<tr>
<td></td>
<td>48%</td>
<td>55%</td>
<td>3%</td>
<td>11%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Q4 2009/10</th>
<th>Change</th>
<th>FY 2009/10</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£2,292m</td>
<td>(2%)</td>
<td>£8,513m</td>
<td>(1%)</td>
</tr>
<tr>
<td>EBITDA¹</td>
<td>£177m</td>
<td>up £145m</td>
<td>£457m</td>
<td>up £131m</td>
</tr>
</tbody>
</table>

- 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**

<table>
<thead>
<tr>
<th></th>
<th>Q4 2009/10</th>
<th>Change</th>
<th>FY 2009/10</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£2,064m</td>
<td>(4%)</td>
<td>£8,297m</td>
<td>(4%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£470m</td>
<td>6%</td>
<td>£1,885m</td>
<td>12%</td>
</tr>
</tbody>
</table>

- 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

* DSL & LLU
Q4/FY 2009/10 line of business overview

Wholesale

<table>
<thead>
<tr>
<th></th>
<th>Q4 2009/10</th>
<th>Change</th>
<th>FY 2009/10</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,091m</td>
<td>(5%)</td>
<td>£4,450m</td>
<td>(4%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£315m</td>
<td>flat</td>
<td>£1,284m</td>
<td>flat</td>
</tr>
</tbody>
</table>

- 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

<table>
<thead>
<tr>
<th></th>
<th>Q4 2009/10</th>
<th>Change</th>
<th>FY 2009/10</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£1,281m</td>
<td>(1%)</td>
<td>£5,164m</td>
<td>(1%)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£493m</td>
<td>(4%)</td>
<td>£2,016m</td>
<td>flat</td>
</tr>
</tbody>
</table>

- 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

<table>
<thead>
<tr>
<th></th>
<th>December 2005</th>
<th>December 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value of assets</td>
<td>£34.4bn</td>
<td>£31.2bn</td>
</tr>
<tr>
<td>Present value of liabilities</td>
<td>£37.8bn</td>
<td>£40.2bn</td>
</tr>
<tr>
<td>Funding deficit</td>
<td>£3.4bn</td>
<td>£9.0bn</td>
</tr>
<tr>
<td>Confidence level</td>
<td>65%</td>
<td>69%</td>
</tr>
<tr>
<td>Life expectancy of male aged 65</td>
<td>19.8 years¹</td>
<td>21.6 years</td>
</tr>
<tr>
<td>Liabilities as % of PPF</td>
<td>101%</td>
<td>102%</td>
</tr>
</tbody>
</table>

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

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

\(^1\) based on PPF assumptions adopted in October 2009
Pension accounting 2010/11

<table>
<thead>
<tr>
<th></th>
<th>2009/10</th>
<th>2010/11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension service charge¹</td>
<td>£200m</td>
<td>c.£300m</td>
</tr>
<tr>
<td>(EBITDA impact)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension interest charge (net)</td>
<td>£279m</td>
<td>c.£70m</td>
</tr>
<tr>
<td></td>
<td>£479m</td>
<td>c.£370m</td>
</tr>
</tbody>
</table>

- 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
- Cost transformation
- Investing for the future
- 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

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

Honesty

Agility
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

Customer service delivery  Cost transformation  Investing for the future

A better business

Honesty  Agility
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 focusing on their core activities and placing increasing reliance on their networks.

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

- It allows us to focus on our core competencies: 58%
- They simplify our IT/communications operational management: 58%
- It helps us with our overall cost savings: 53%
- It helps us reduce headcount: 40%
- It helps us improve service delivery: 40%


We see increasing demand for managed network services

Multinational managed service spend

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>$m</td>
<td>17,600</td>
<td>19,000</td>
<td>21,300</td>
<td>23,000</td>
<td>25,000</td>
</tr>
</tbody>
</table>

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%*

*Source: BT estimation, calculated from IDC 2009 base data. 4 year CAGR is from 2009 to 2013
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**

**Reasons for purchasing mobile broadband***

- Bought in addition to fixed: 61%
- No landline: 13%
- Replaced fixed with mobile: 7%
- Bought mobile instead of fixed: 6%
- Other: 9%

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

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)**

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.

Source: Analysys Mason 2009 - Western Europe Forecasts
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?**

**European IP traffic 2008-2013**

Source: Ofcom, March 2010

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

Telecomms and utilities price changes

- Real change in electricity prices
- Real change in gas prices
- Real change in water prices
- Real change in telecoms prices

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

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

- **BT Total Broadband**
  - Standard monthly price: £24.99 to £15.99
  - Up to 40 Mb download
  - Up to 10 Mb upload

- **BT Infinity**
  - Standard monthly price: £24.99 to £19.99
  - Up to 50 Mb download
  - Up to 1.5 Mb upload

- **Virgin XXL**
  - Standard monthly price: £38 to £28
  - Up to 50 Mb download
  - Up to 1.5 Mb upload
## Outlook 2010/11

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>c.£20bn</td>
</tr>
<tr>
<td>Operating cost savings&lt;sup&gt;1&lt;/sup&gt;</td>
<td>c.£900m</td>
</tr>
<tr>
<td>Adjusted EBITDA&lt;sup&gt;2&lt;/sup&gt; after leaver costs</td>
<td>in line with 2009/10</td>
</tr>
<tr>
<td>Free cash flow before specific items&lt;sup&gt;3&lt;/sup&gt;</td>
<td>c.£1.8bn</td>
</tr>
<tr>
<td>Net debt</td>
<td>&lt;£9bn</td>
</tr>
</tbody>
</table>

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<sup>1</sup> underlying operating costs before specific items, depreciation and amortisation  
<sup>2</sup> before specific items  
<sup>3</sup> before pension deficit payment. Specific items are expected to result in cash outflow of around £150m in 2010/11
<table>
<thead>
<tr>
<th>Outlook future plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td><strong>Adjusted EBITDA(^1) after leavers</strong></td>
</tr>
<tr>
<td><strong>Free cash flow before specific items(^2)</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
</tr>
</tbody>
</table>

\(^1\) 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

A better future

BT Group plc

Tony Chanmugam
## Income statement

<table>
<thead>
<tr>
<th>£m</th>
<th>Q4 2009/10</th>
<th>YoY Change %</th>
<th>FY 2009/10</th>
<th>YoY Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted revenue&lt;sup&gt;1&lt;/sup&gt;</td>
<td>5,356</td>
<td>(3)%</td>
<td>20,911</td>
<td>(2)%</td>
</tr>
<tr>
<td>POLOs&lt;sup&gt;2&lt;/sup&gt;</td>
<td>(929)</td>
<td></td>
<td>(4,083)</td>
<td></td>
</tr>
<tr>
<td>Revenue (net)</td>
<td>4,427</td>
<td></td>
<td>16,828</td>
<td></td>
</tr>
<tr>
<td>Adjusted EBITDA&lt;sup&gt;1&lt;/sup&gt;</td>
<td>1,530</td>
<td>16%</td>
<td>5,781</td>
<td>6%</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>(788)</td>
<td></td>
<td>(3,039)</td>
<td></td>
</tr>
<tr>
<td>Adjusted operating profit&lt;sup&gt;1&lt;/sup&gt;</td>
<td>742</td>
<td>41%</td>
<td>2,742</td>
<td>7%</td>
</tr>
</tbody>
</table>

<sup>1</sup> 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.

<sup>2</sup> Payments to other licensed operators.
## Income statement

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

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

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

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

<table>
<thead>
<tr>
<th>£m</th>
<th>Q4 2009/10</th>
<th>YoY Change £m</th>
<th>FY 2009/10</th>
<th>YoY Change £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Services</td>
<td>141</td>
<td>(138)</td>
<td>(443)</td>
<td>404</td>
</tr>
<tr>
<td>Retail</td>
<td>473</td>
<td>90</td>
<td>1,688</td>
<td>598</td>
</tr>
<tr>
<td>Wholesale</td>
<td>344</td>
<td>(18)</td>
<td>856</td>
<td>21</td>
</tr>
<tr>
<td>Openreach</td>
<td>354</td>
<td>60</td>
<td>1,231</td>
<td>118</td>
</tr>
<tr>
<td>LoB operating free cash flow</td>
<td>1,312</td>
<td>(6)</td>
<td>3,332</td>
<td>1,141</td>
</tr>
<tr>
<td>Other</td>
<td>(267)</td>
<td>(83)</td>
<td>(1,399)</td>
<td>55</td>
</tr>
<tr>
<td><strong>Group free cash flow</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td><strong>1,045</strong></td>
<td><strong>(89)</strong></td>
<td><strong>1,933</strong></td>
<td><strong>1,196</strong></td>
</tr>
</tbody>
</table>

<sup>1</sup> 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

- £21.7bn
- £20.9bn
- £20.0bn

Reported 2008/09
Reported 2009/10
Outlook 2010/11

FX & acquisitions
Revenue one-offs
MTR Transit Economy

Improving revenue trends

Reported 2009/10
Outlook 2010/11
2011/12
2012/13
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

- Cost of sales: £2.7bn
- POLOs: £4.1bn
- Other operating costs: £3.4bn
- Direct labour costs: £4.3bn
- Indirect labour costs: £1.0bn
- Capitalised labour: £0.8bn
- Other capital: £1.7bn

Cost base 2009/10

- Platforms & networks
- Property and energy: £1.3bn
- Network maintenance & IT: £1.0bn
- Other: £1.1bn
- Customer specific spend
Grow EBITDA Q4/FY 2009/10 group cost reductions

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

- Group revenue: £20.2bn (2006/07) to c.£20bn (2011/12)
- Direct revenue related costs: £14.7bn (2006/07) to £14.6bn (2010/11)
- Investment in the business: £3.2bn (2006/07) to £2.6bn (2011/12)
- Pension service charge: £3.2bn (2006/07) to £2.6bn (2011/12)
- Cost savings: £20.2bn (2006/07) to £2.6bn (2011/12)
- Further cost saving opportunities: c.£900m opex reduction
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

- Operating cash flow: £4,413m
- Cash capital expenditure: £2,480m
- Reported free cash flow: £1,933m
- Pension deficit payment: £525m
- Dividend: £264m
- Other: £66m
- Reduce net debt: £1,078m
Grow free cash flow*

- Reported 2009/10: £1,933m
- Cash tax ‘swing’: c.£1,700m
- Factoring unwind in working capital: c.£1,800m
- cash impact of specific items: £1,700m
- Normalised 2009/10: c.£1,800m
- Business improvement: c.£2,000m

* 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
A better business

A better future

BT Group plc

Q&A