

Delivering value through transformation

Q4 & Preliminary full year results 2004/05

19th May 2005



Delivering value through transformation

Preliminary full year results 2004/05

Sir Christopher Bland - Chairman



Forward-looking statements - caution

Certain statements in this presentation 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: continued growth in new wave turnover from broadband, ICT solutions, mobility and managed services growth; implementation of BT's 21st Century Network; opportunities from convergence; distribution policy; and expectations regarding cost reduction, improved margins, earnings and dividend growth, and value through transformation.

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, including broadband and other new wave initiatives, not being realised; and general financial market conditions affecting BT's performance.

BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.



Delivering value through transformation



Transformation 21st
Century Network

FY 04/05 - Headline financials

Group turnover

£18.6bn



2%*

Earnings per share**

18.1p



7%

Full year dividend

10.4p



22%

Free cash flow

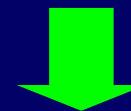
£2.3bn



10%

Net debt

£7.8bn



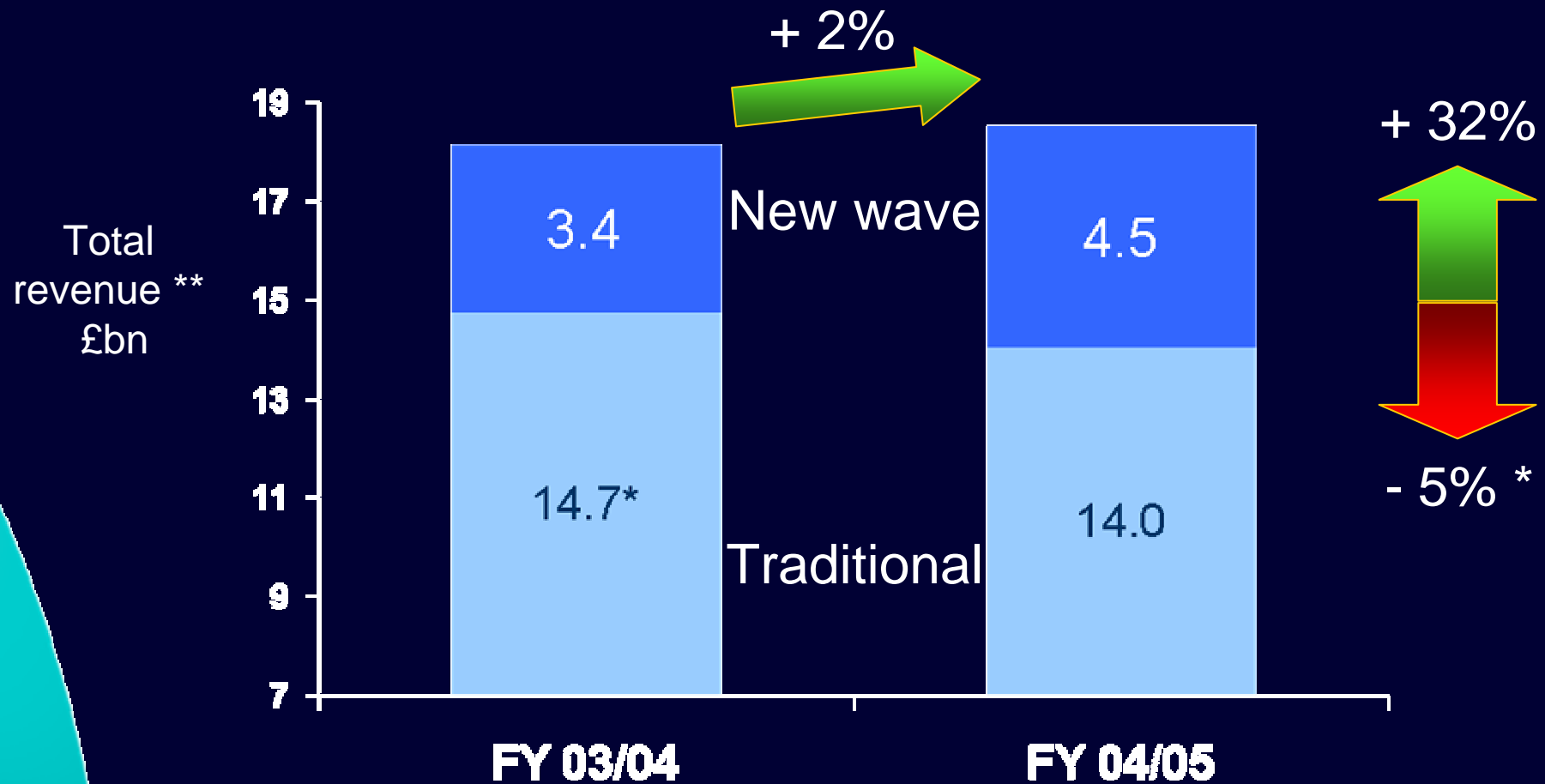
8%

* adjusted for the impact of mobile termination cut and excludes revenues from Albacom and Infonet

** before exceptional items and goodwill



FY 04/05 - Group turnover



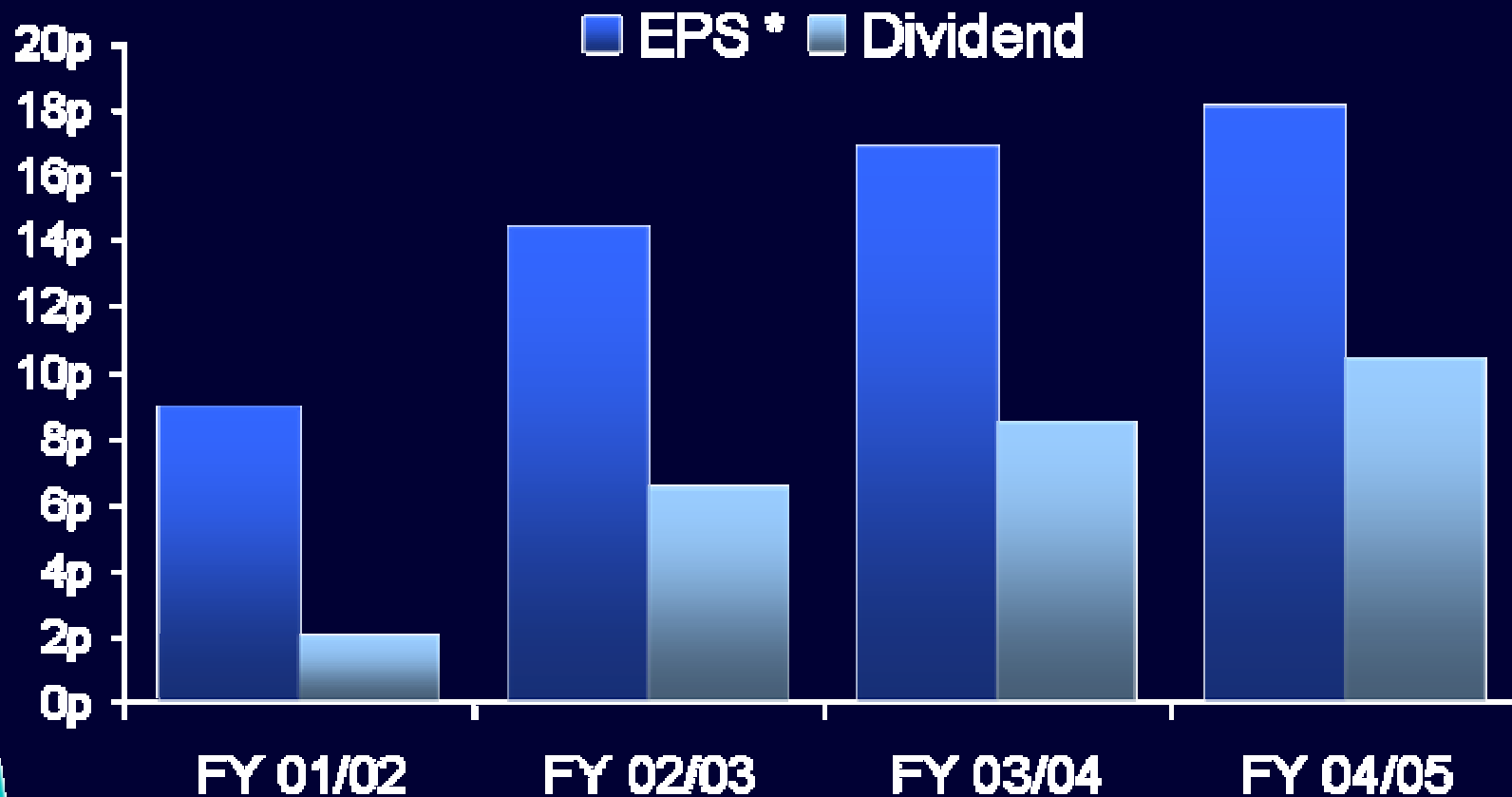
New wave : BT Retail and BT Wholesale new wave plus C&SI and Solutions revenue

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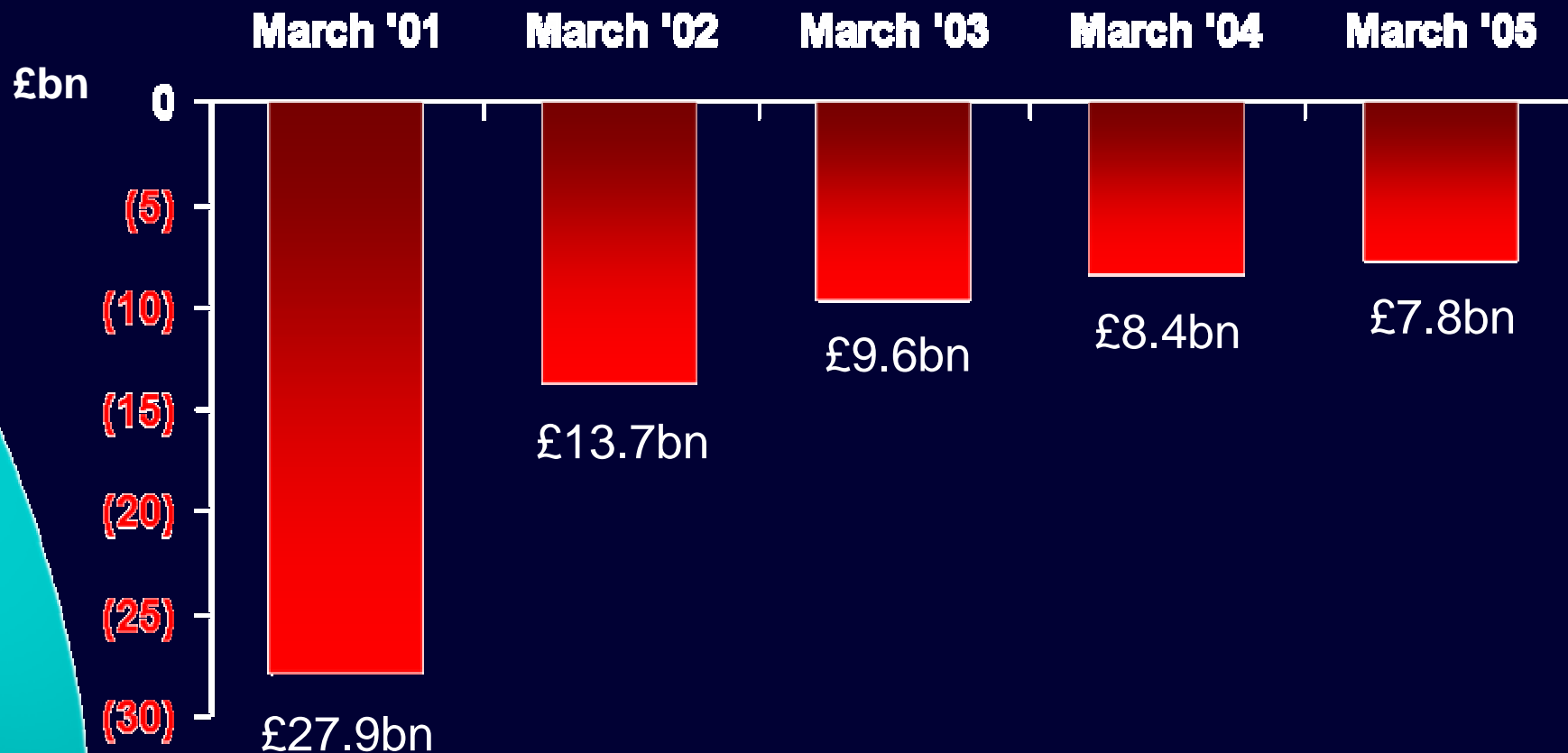
FY 04/05 - Earnings & Dividend



* before exceptional items and goodwill from continuing activities

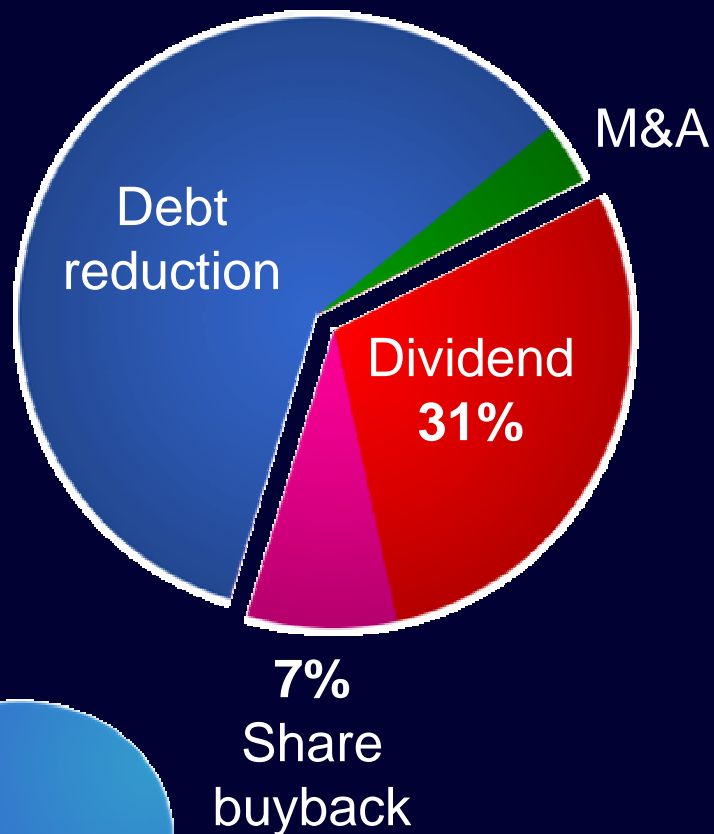
FY 04/05 - Net Debt

- Reduced by £20bn since March 2001

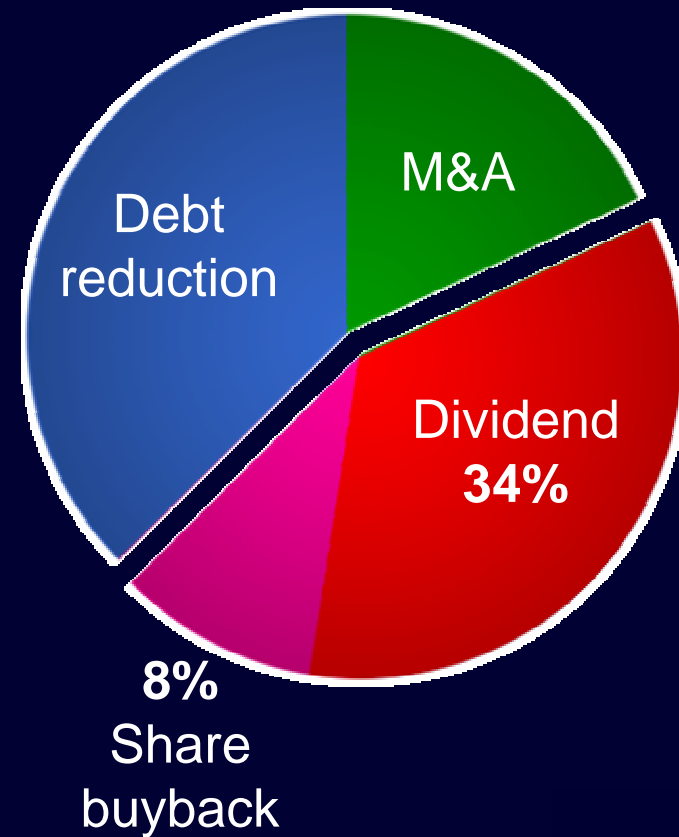


Uses of free cash flow

FY 03/04
Free cash flow
£2,071m



FY 04/05
Free cash flow
£2,282m



Progressive distribution policy continues

- Dividends
 - 2005/6 pay out at least 60% of earnings
 - pay out ratio rising to around two thirds of earnings by 2007/8
- Gearing
 - comfortable with net debt of around £8bn
- Buyback
 - rolling programme to continue

Strategy driving results ...

- FIVE consecutive quarters of top line* growth
- TWELVE consecutive quarter of EPS** growth
- Net Debt reduced by > 70% in four years
- Continue to serve > TWENTY million customers
- Dividends FIVE times greater than 2001/2

... transformation delivering value
to shareholders and customers

* adjusted for the impact of mobile termination cuts and excludes revenues from
Albacom and Infonet

** before leavers, exceptional items and goodwill



Delivering value through transformation

Q4 results 2004/05

Hanif Lalani – Group Finance Director



Q4 04/05 – Financial headlines

Group turnover	£4.9bn	↑	2%
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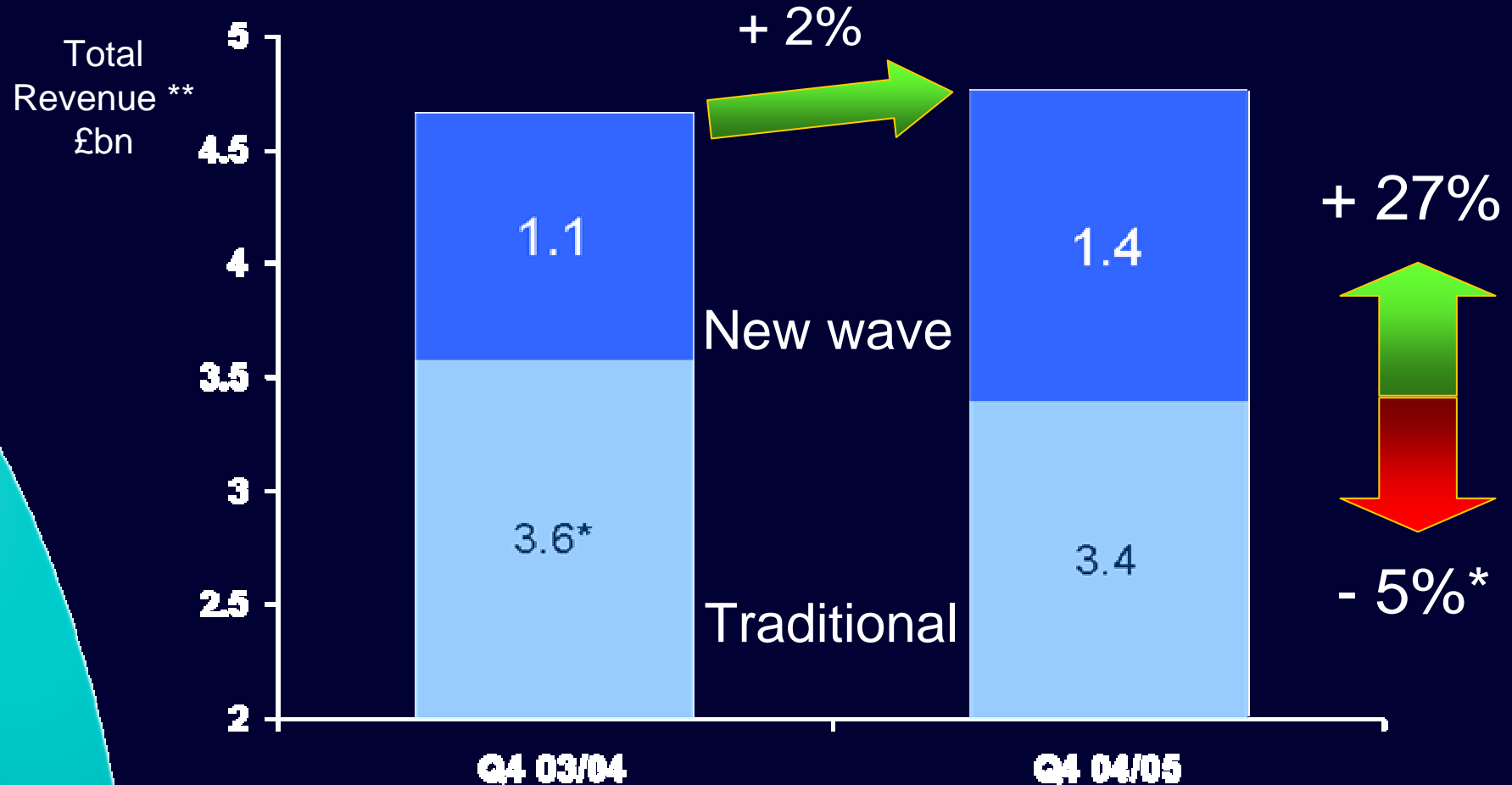
Profit before tax *	£557m	↑	21%
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Earnings per share *	4.9p	↑	26%
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Free cash flow	£1.1bn	↑	40%
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* before exceptional items and goodwill from continuing activities

Q4 04/05 - Turnover transformation



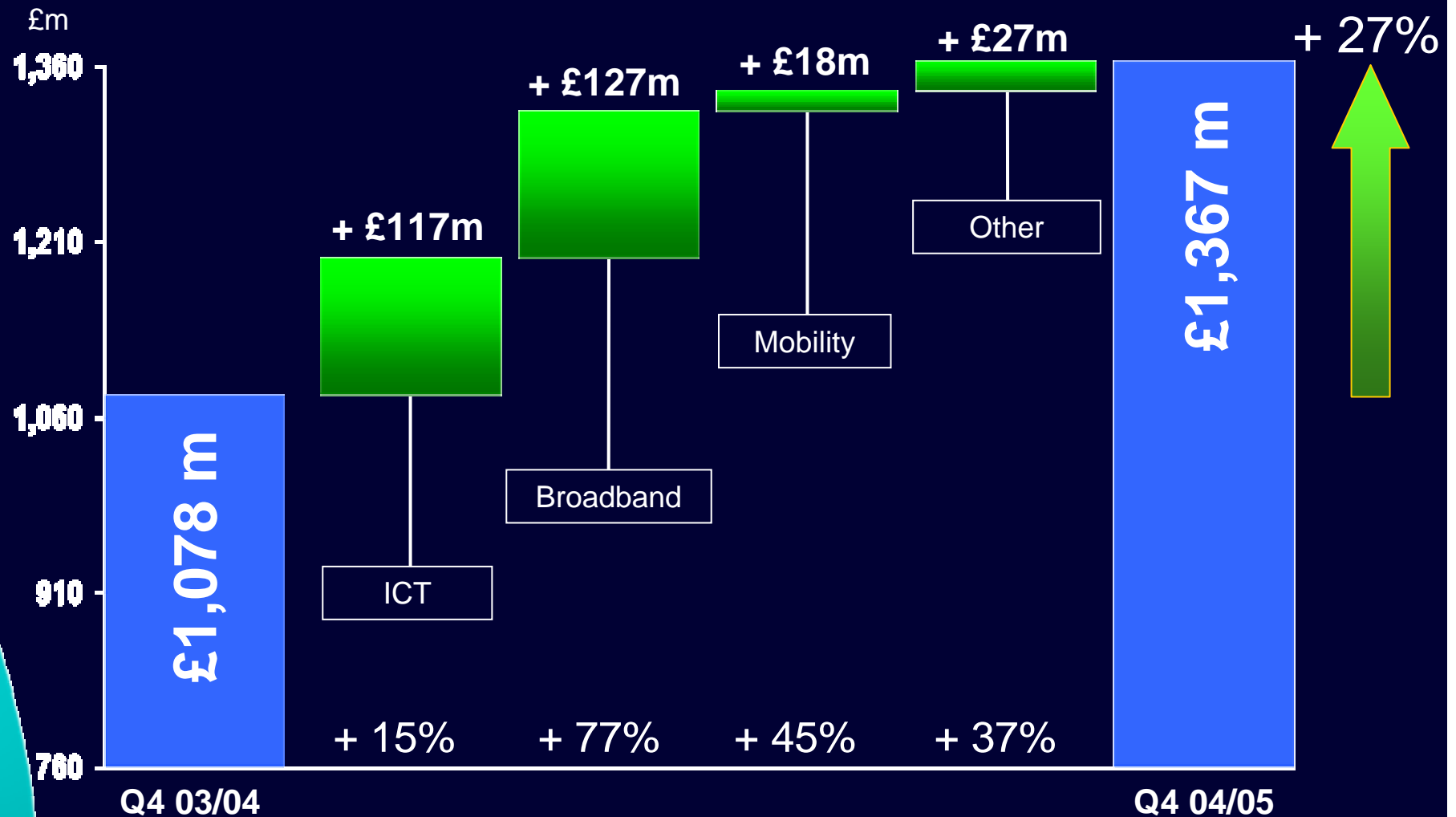
New wave : BT Retail and BT Wholesale new wave plus C&SI and Solutions revenue

* adjusted for the impact of mobile termination cut

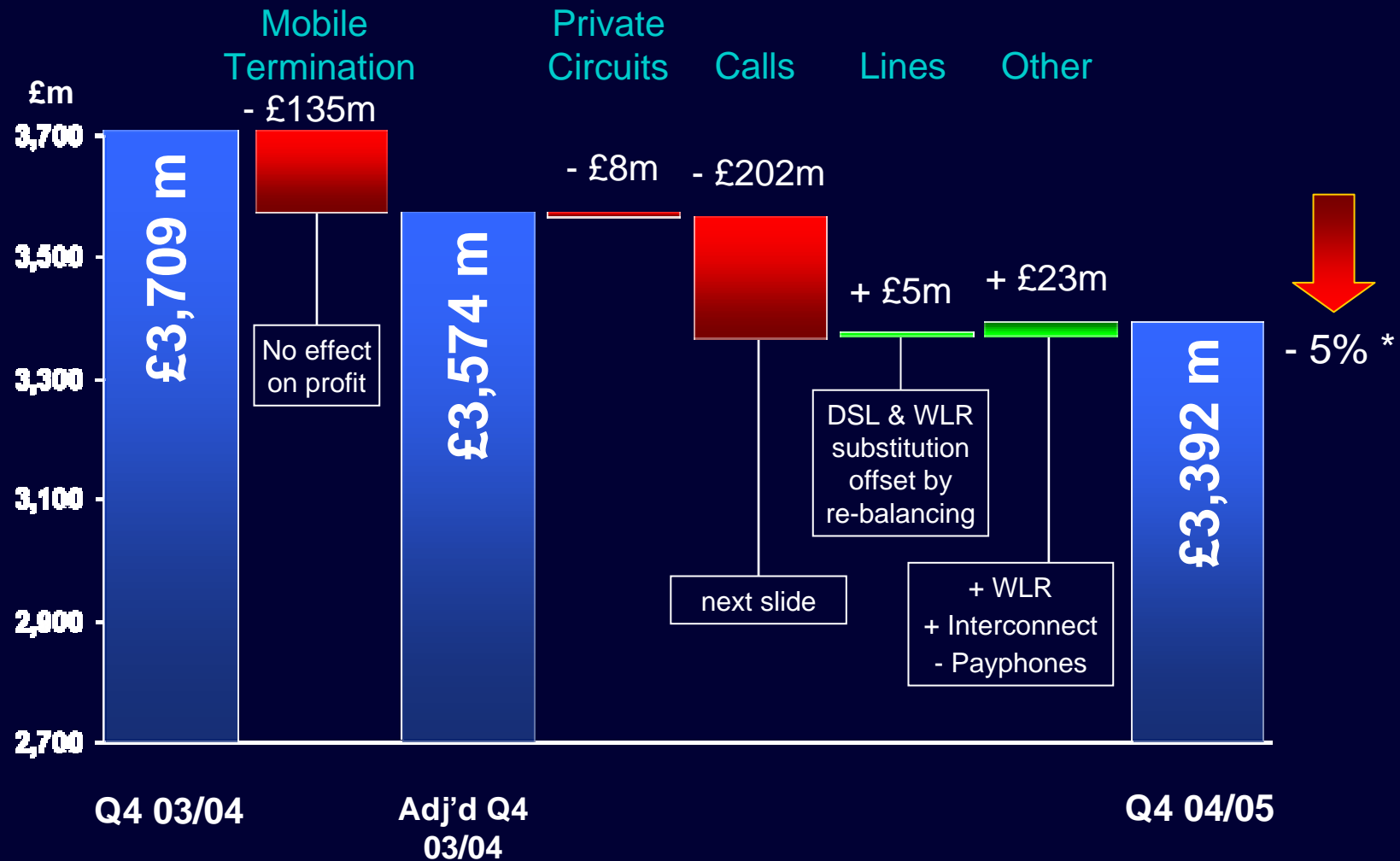
** adjusted for the impact of mobile termination cut and excludes revenues from Albacom and Infonet



Q4 04/05 - New Wave turnover



Q4 04/05 - Traditional turnover



* adjusted for the impact of mobile termination cut



Q4 04/05 - Call revenues

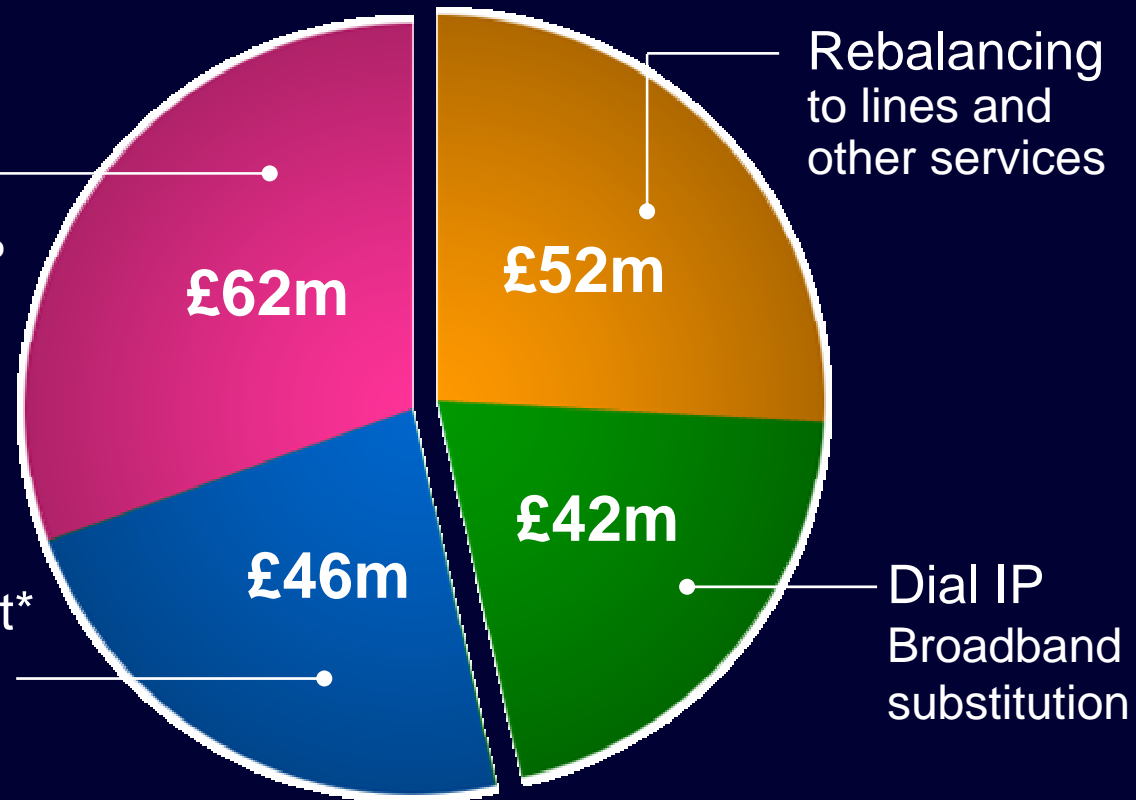
- £202m decrease year on year

Market share*

- Business down 0.4%
- Consumer down 1.1%

Fixed voice market*

Volume and price reductions



* BT estimates based on latest Ofcom data
- Local, national, international and non-geographic voice minutes



Q4 04/05 - BT Retail

- Turnover declined by 5%* year on year
 - loss to CPS lowest for 2 years
 - improved share of broadband net adds
- Gross margin 26% - mix changing
 - Traditional margin flat
 - New wave margin improving
- SG&A flat** (pre leavers)
 - ongoing reduction in Traditional offset by investment in New wave
- Operating Profit up 12%**
 - down 10% pre leavers

*adjusted for the impact of mobile termination rate cut
**before exceptional items and goodwill



Q4 04/05 - BT Wholesale

- Total turnover £2,238m up 1%
 - External turnover up 21%*
 - Internal turnover down 6%
- Gross variable profit £1,729m up 2%
- Network and SG&A costs down £13m**
(pre leavers up £26m)
- Operating profit £489m** up 12%
(pre leavers up 3%)

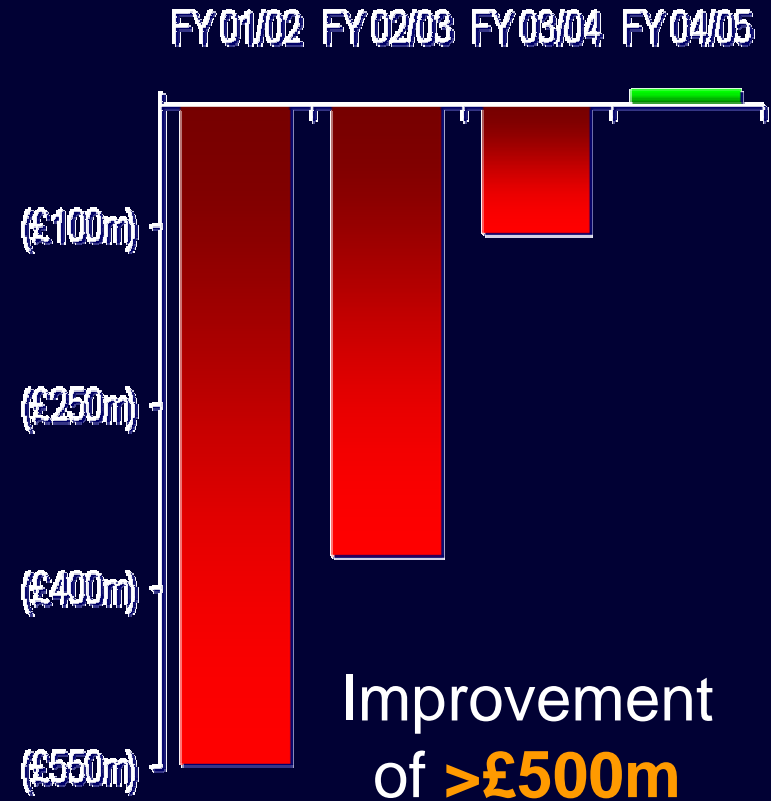
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**before exceptional items and goodwill



Q4 04/05 - BT Global Services

- Turnover up 10%* at £1,817m
- EBITDA up 23% at £201m**
- Operating PROFIT £47m**
- Operating FCF £37m

Operating Profit turnaround



* excludes revenues from Albacom and Infonet
** after leaver costs, before exceptional items and goodwill

BT Global Services - acquisitions update

Albacom

- Acquired for €116m
- Received EC clearance, January 31st
- Deal completed on February 4th



Infonet

- Acquired for \$570m (net of cash)
- Deal completed on February 25th
- Expected annual savings of £80m from year three



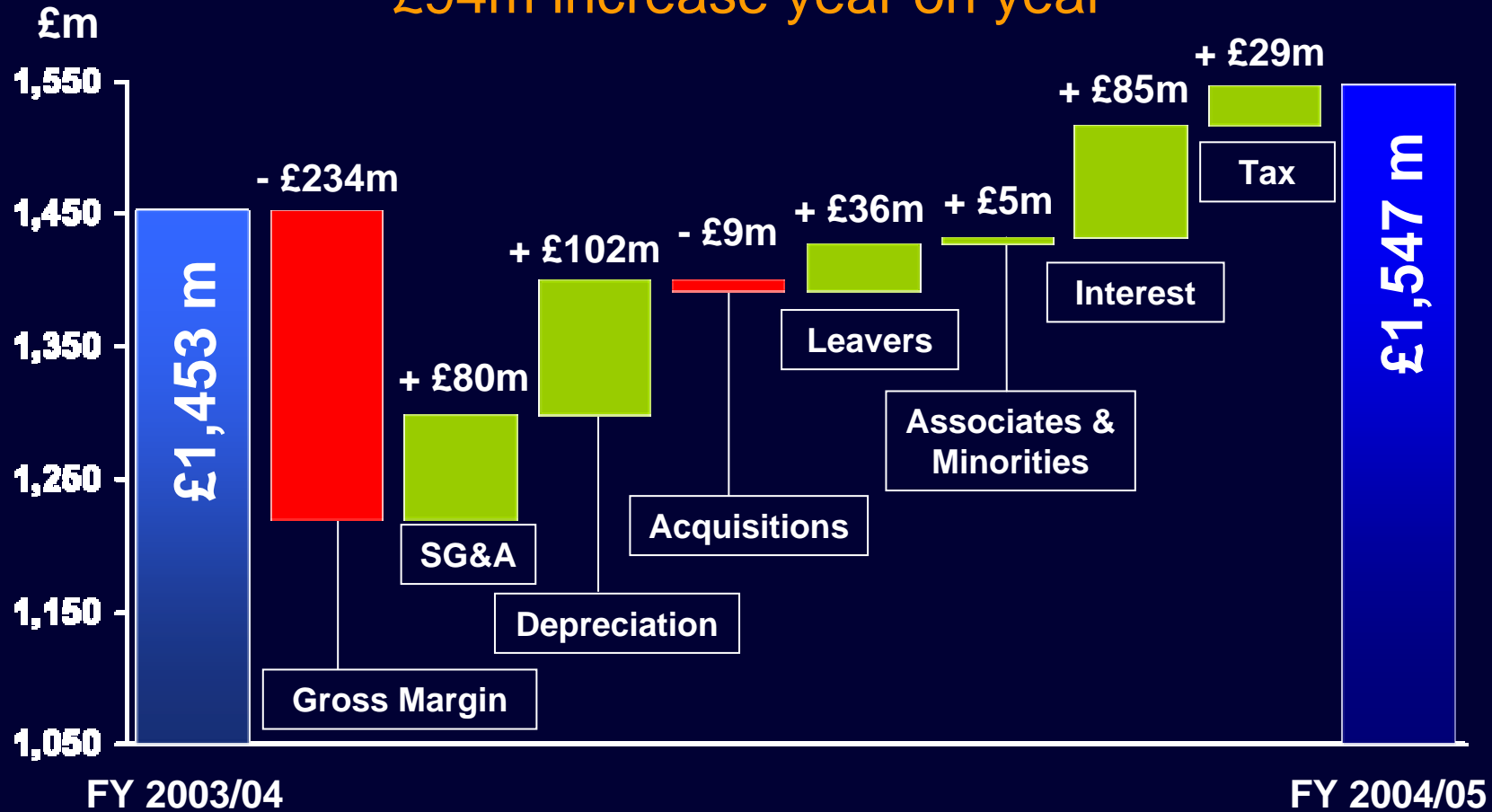
And in 2005/6

- Acquired Radianz from Reuters for \$175m
- Bought the C&W systems business in Spain
- Purchased SkyNet, a leading supplier of LAN systems



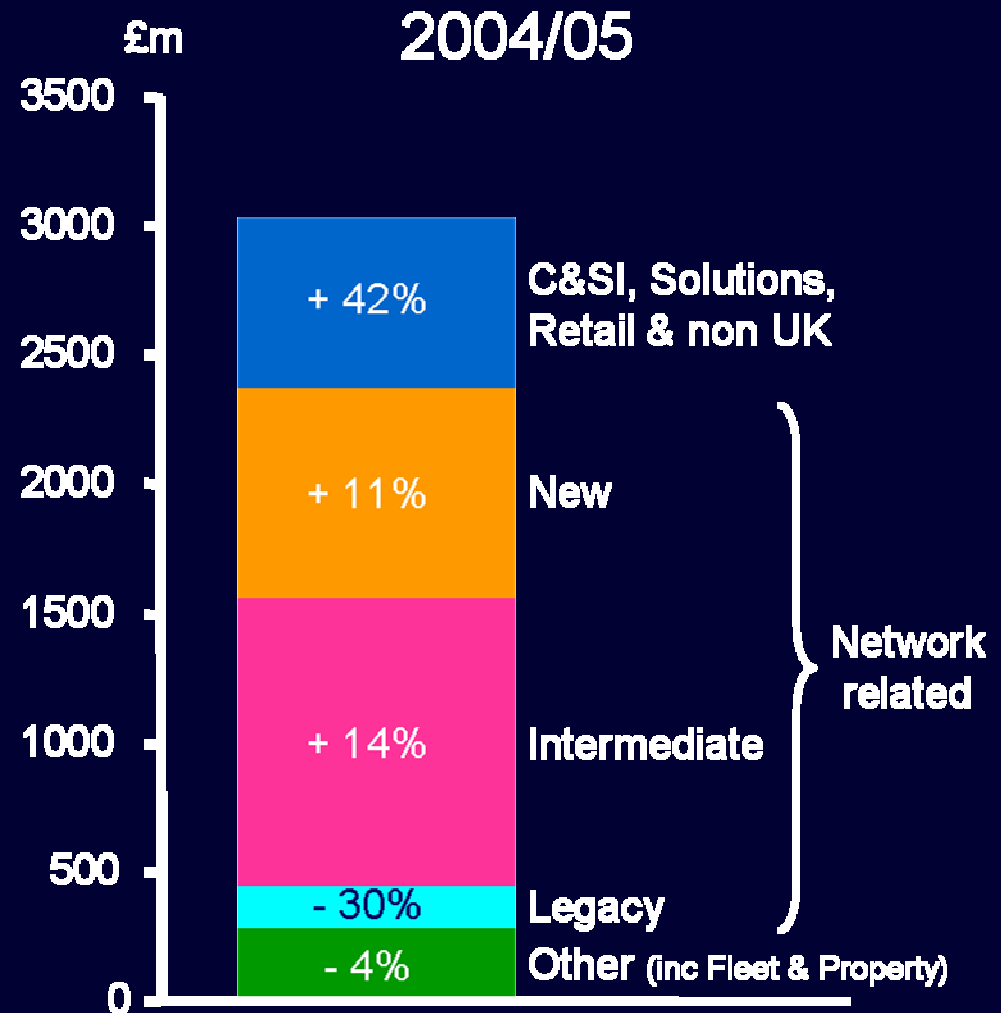
FY 04/05 - Profit attributable to shareholders

£94m increase year on year



Full Year - Group capital expenditure

- Group capex up 13% to £3,011m
 - Including £12m for Albacom and Infonet
- Broadband spend c£500m
- Big increase in spend on ICT driven by contract wins

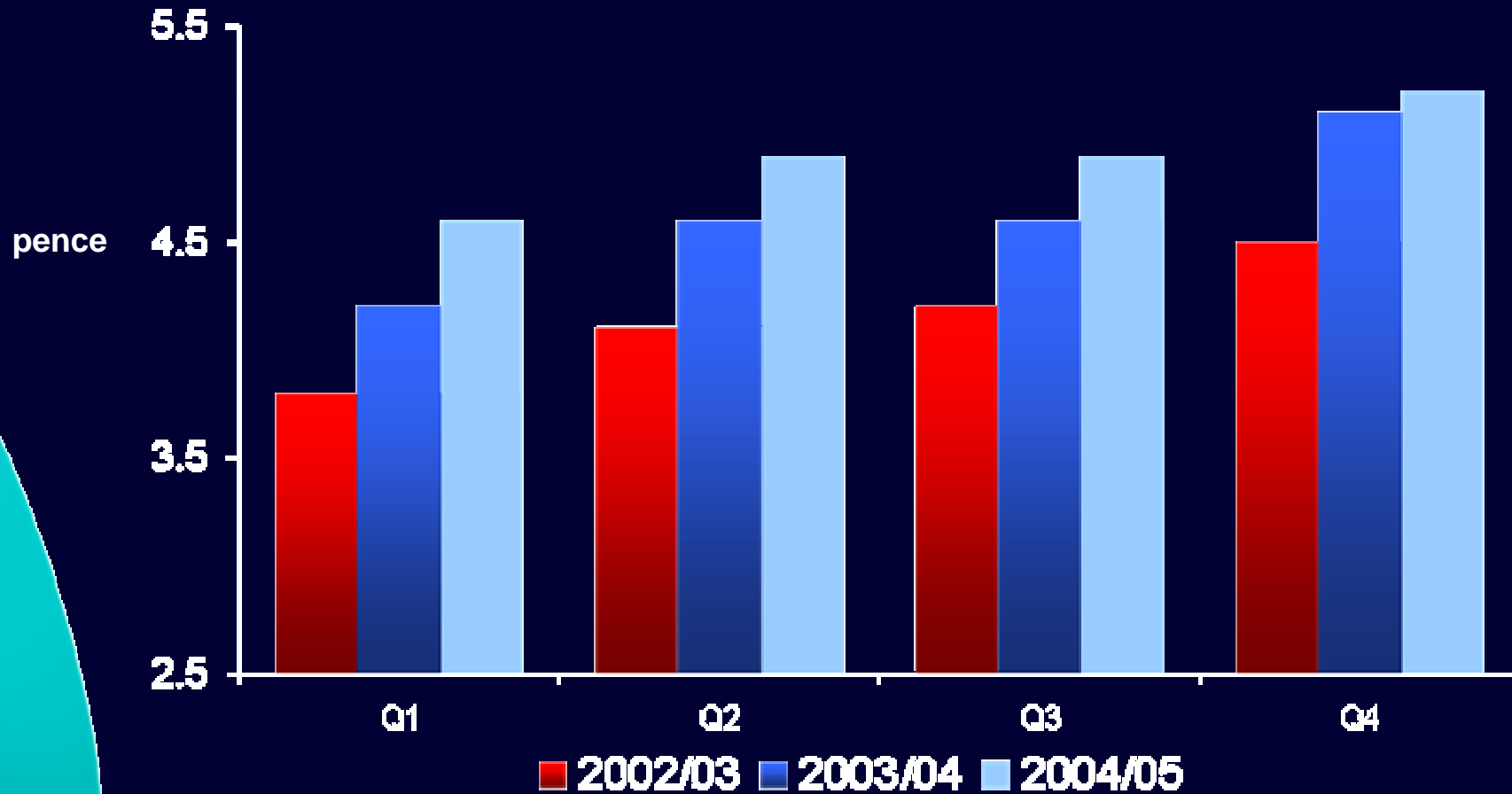


FY 04/05 - Free cash flow generation

	FY 04/05 £m	FY 03/04 £m	Better / (Worse) £m
EBITDA post exceptional items	5,645	5,806	(161)
Change in working capital	157	252	(95)
Movement in provisions, pensions and other	98	(666)	764
Interest paid	(878)	(527)	(351)
Tax paid	(332)	(317)	(15)
Sale of investments	537	131	406
Capex (net of disposals)	(2,945)	(2,608)	(337)
Free cash flow	2,282	2,071	211
Net Debt	7,786	8,425	639

Underlying earnings per share*

- Delivered 12 consecutive quarters of growth



* before leaver costs, goodwill and exceptionals



Delivering value
through transformation

*Convergence -
unlocking the opportunities*

Ben Verwaayen - CEO



In the **LAST** three years we have ...

- Built new wave into a £4.5bn per annum business
- Delivered Broadband Britain
- Won ICT orders valued at > £18bn
- Reduced customer dissatisfaction by 54%
- Re-established ourselves in the Mobile market
- Taken > £1bn of costs out of the business
- Reduced net debt to < £8bn
- Returned over £2bn to shareholders
- Delivered a CAGR of > 25% in EPS & > 70% in Dividend

... transformation **HAS** delivered



Convergence creates further opportunities ...

Comms
& IT

Fixed
& Mobile

Networks
& Services

Networked
IT services
(ICT)

Bluephone
& WiFi
Mobility

Broadband
& 21CN

... for the next 3 years



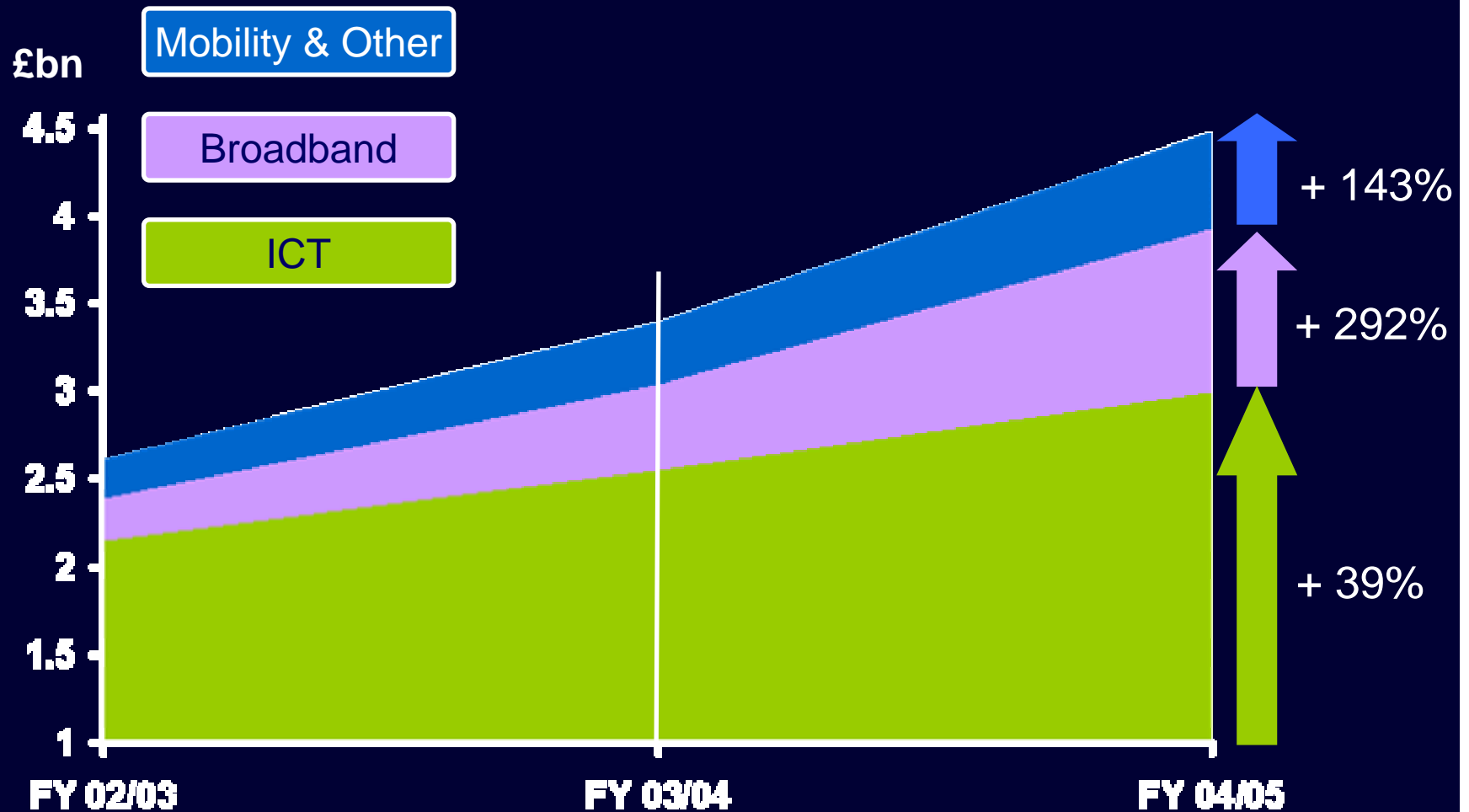
New Wave - record of delivery*



* Revenue growth versus same quarter in prior year



New Wave - foundation of growth



New wave : BT Retail and BT Wholesale new wave plus C&SI and Solutions revenue



Build a networked IT services business

Customers expect a joined up world

Why BT?

- Targeted propositions
- Proven capability
- Global reach and account management
- Leveraging BT network expertise
- Exploiting BT practitioner experience
- World-class partners



Build a networked IT services business

Q4 total order intake **£3.8bn***

- Key wins include
 - **Reuters** 8+ years, all fixed voice and data network services
 - **Bristol-Myers Squibb** multi-year, management of local and wide area network infrastructure globally
 - **120 Solutions** contracts worth between £1m and £5m each

And for Q1

- **Ministry of Defence** 5 year extension, £1.5bn over 7 years

* Sales Order Value of contracts won by Solutions and C&SI



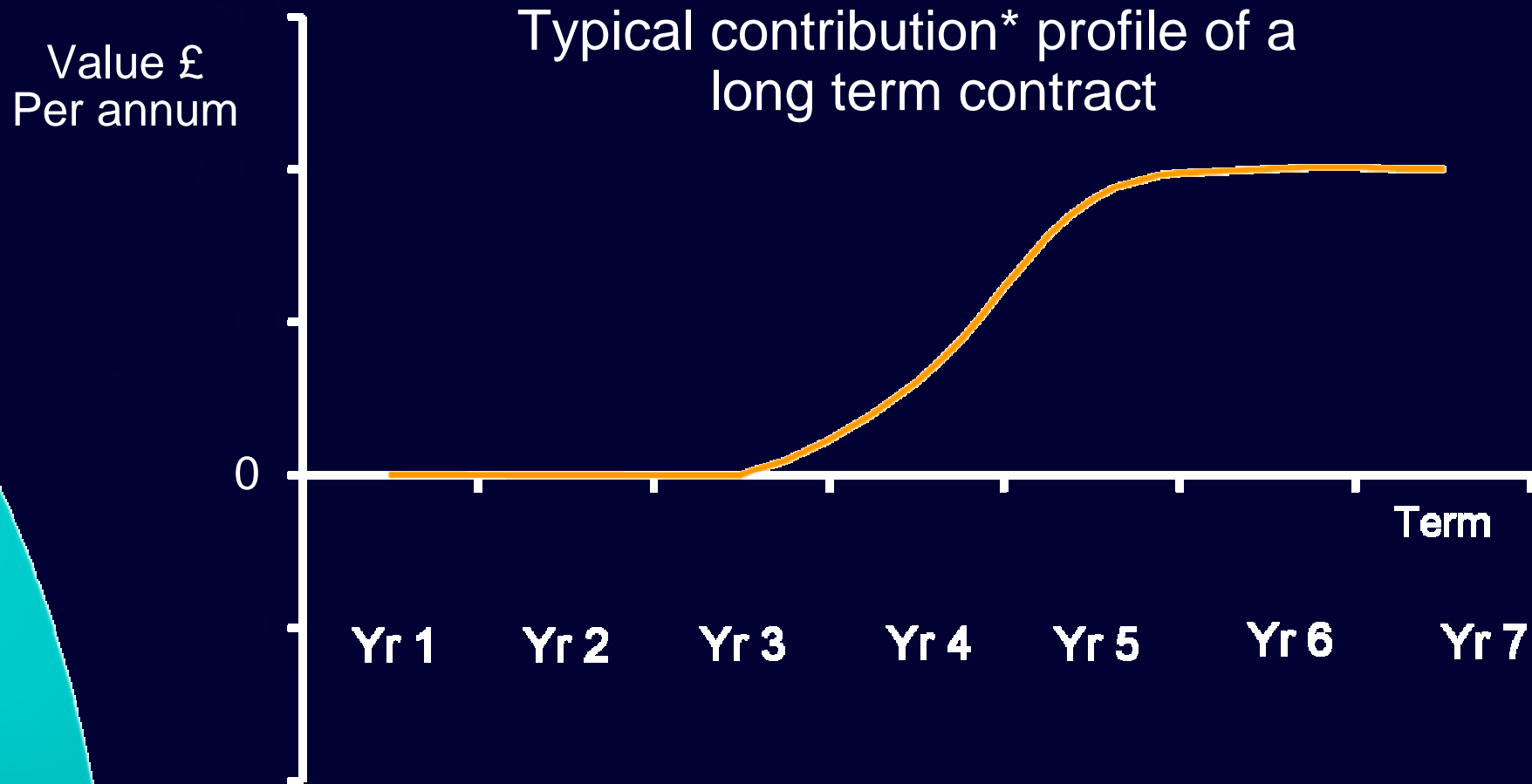
Build a networked IT services business



* Sales Order Value of contracts won by Solutions and C&SI

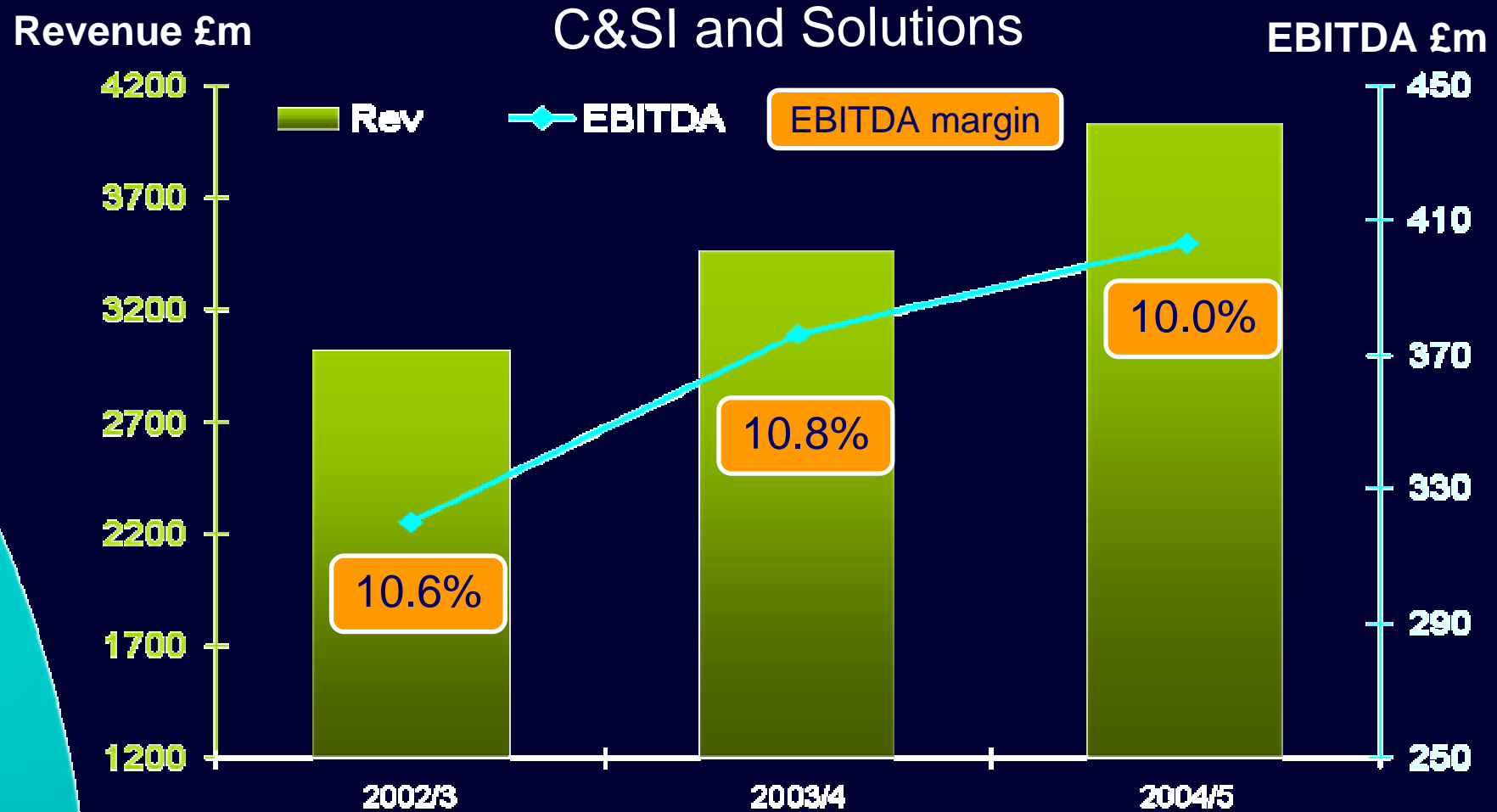


Build a networked IT services business



* Excludes allocation of fixed costs

Build a networked IT services business



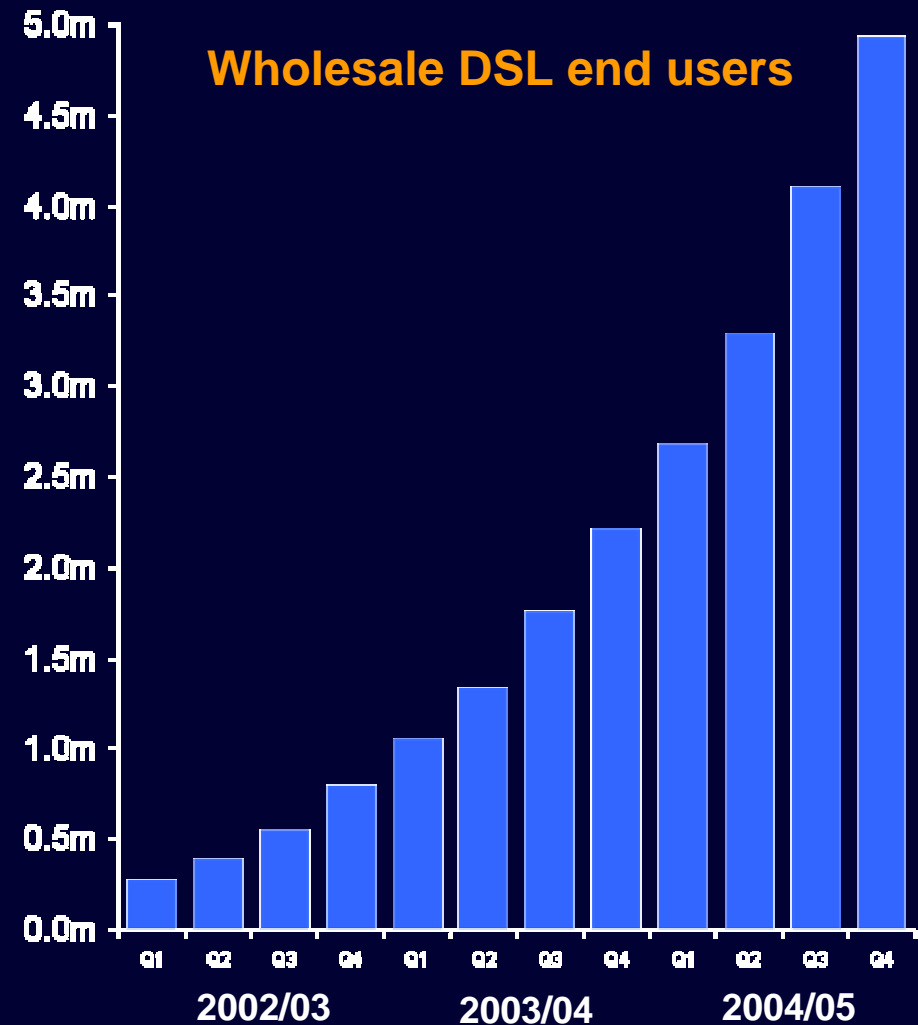
Broadband - BT Wholesale

Connected 5 millionth
end user in early April
ONE YEAR early

Represents **17%** of all
lines up from **7.5%**

Q4 net additions
>825,000
Another Record

ADSL coverage 99.6%
this summer



Broadband - BT Retail

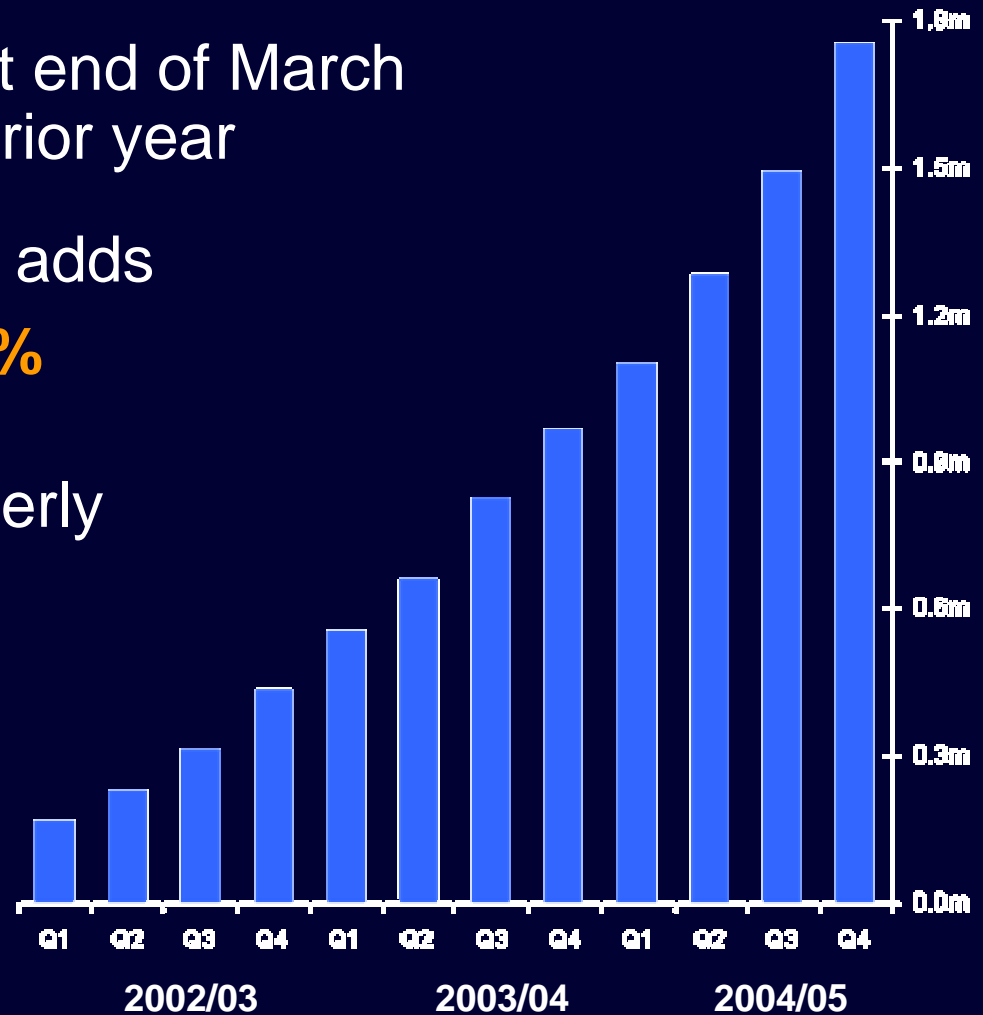
1.7m DSL subscribers at end of March
81% higher than prior year

Market share of DSL net adds

Q4 **32%** & Full year **29%**

Another record of quarterly net additions **261k**

Up to 4 X the speed
at no extra cost



Broadband - dynamics

UK
broadband
market
volumes

c 3.5m net adds in 2004/5

Net adds will be even higher in 2005/6

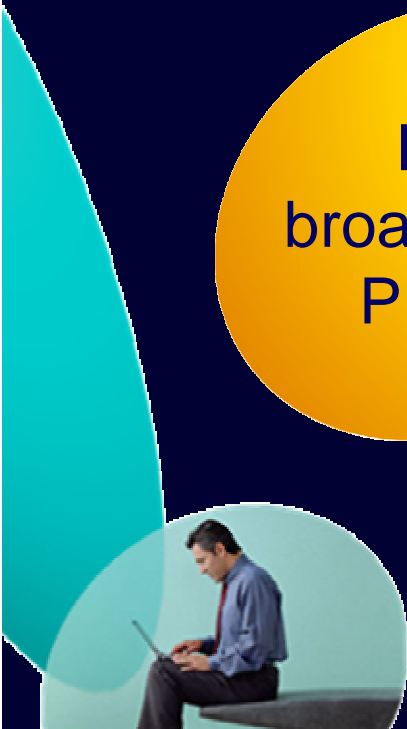
c 50% penetration rate by 2007/8

BT
broadband
P & L

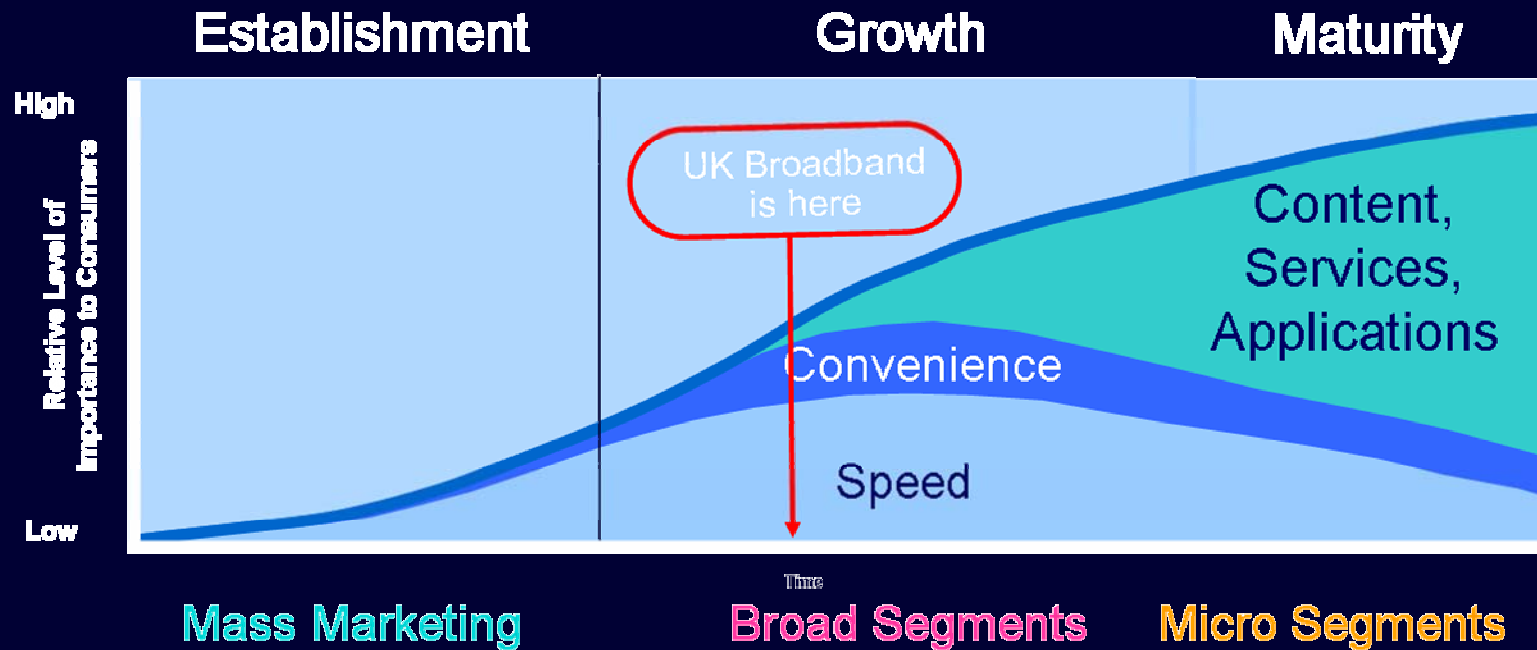
Overall positive EBITDA achieved
during 2004/5

- BT Wholesale 2003/4
- BT Retail
 - Business 2004/5
 - Overall 2005/6
 - Consumer 2006/7

... and Dial IP migration will reduce



Broadband - market development



Today speed is no longer a hindrance

Tomorrow content will be the differentiating factor ...

Source: Strategy Analytics research / BT



Broadband - value add services

- BT Rich Media

- SportFIVE, FIFA World Cup qualifiers

- Live matches @ €9.95

- Downloaded matches @ €6.95

- Wimbledon Tennis Championships

- 50p for 52 minutes of replays or highlights

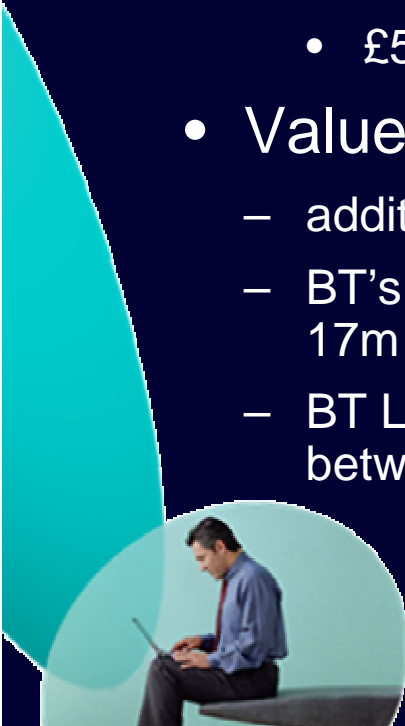
- £5 one-off fee to access Wimbledon Plus content

- Value add packages

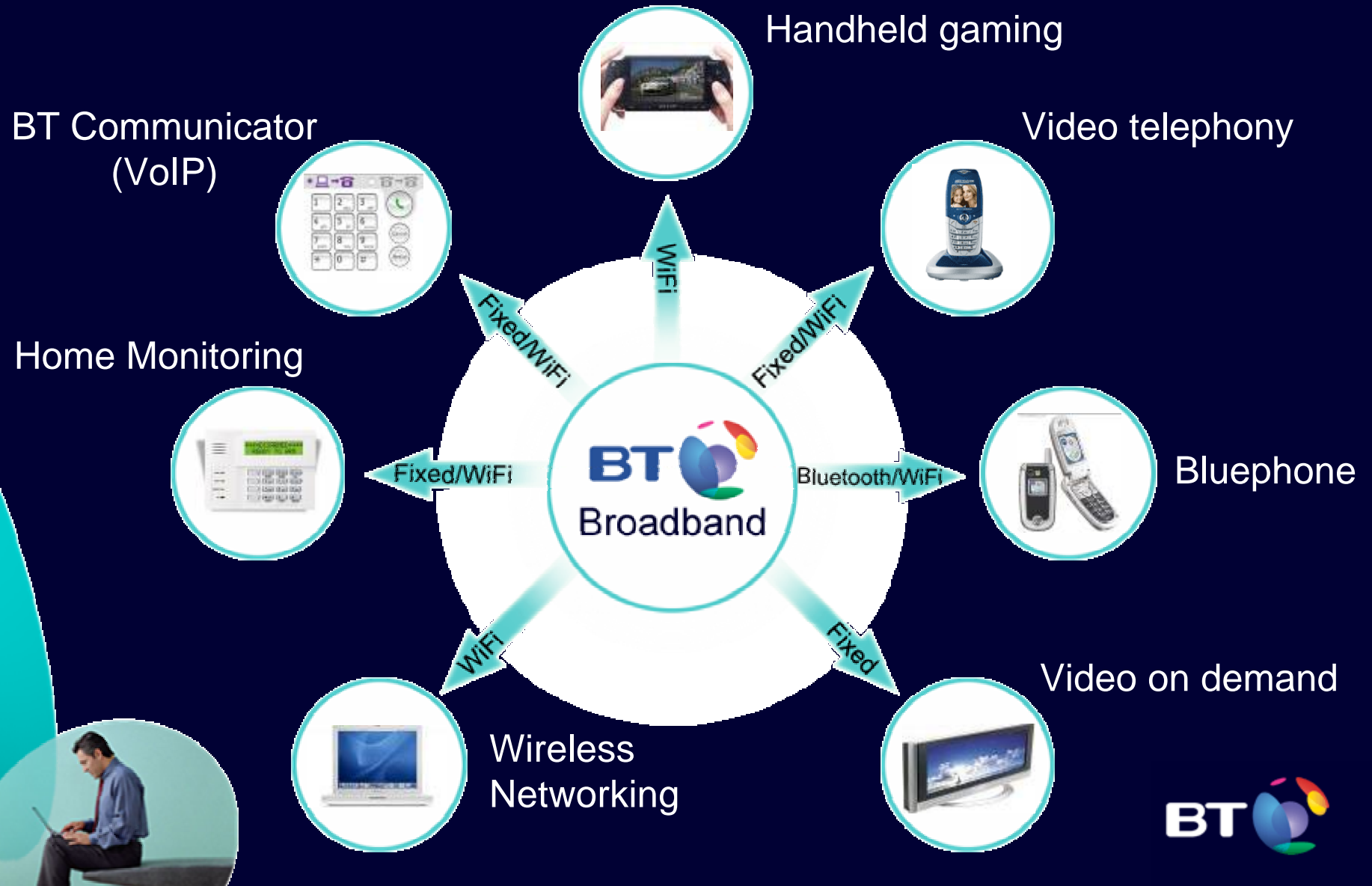
- additional security upgrades taken by 50% of SME customers

- BT's Click&Buy/BT Buynet on line payment system handling 17m transactions

- BT LearningCentre provides “Community Learning Portals” for between £2 and £5.99 a month



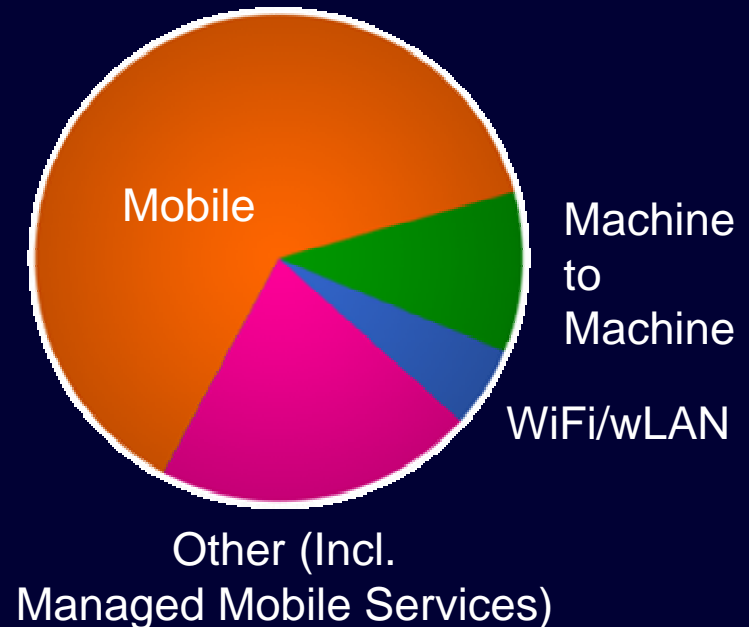
Broadband & Wireless – enabling convergence



Mobility - more than just mobile

- Full year turnover grew > 100% to £205m
- Mobile
 - Service Provision connections base grew 31k in Q4 to 372k* (post pay)
 - subscriber base has grown 157% on last year
 - 50% consumer and 50% Business
- Machine to machine
 - monitoring, RFID and telemetry services
- WiFi
 - Private and Public (BT Openzone) Wireless LANs

2004/05 Turnover



Positioning BT to deliver converged services

* Excludes BT own use

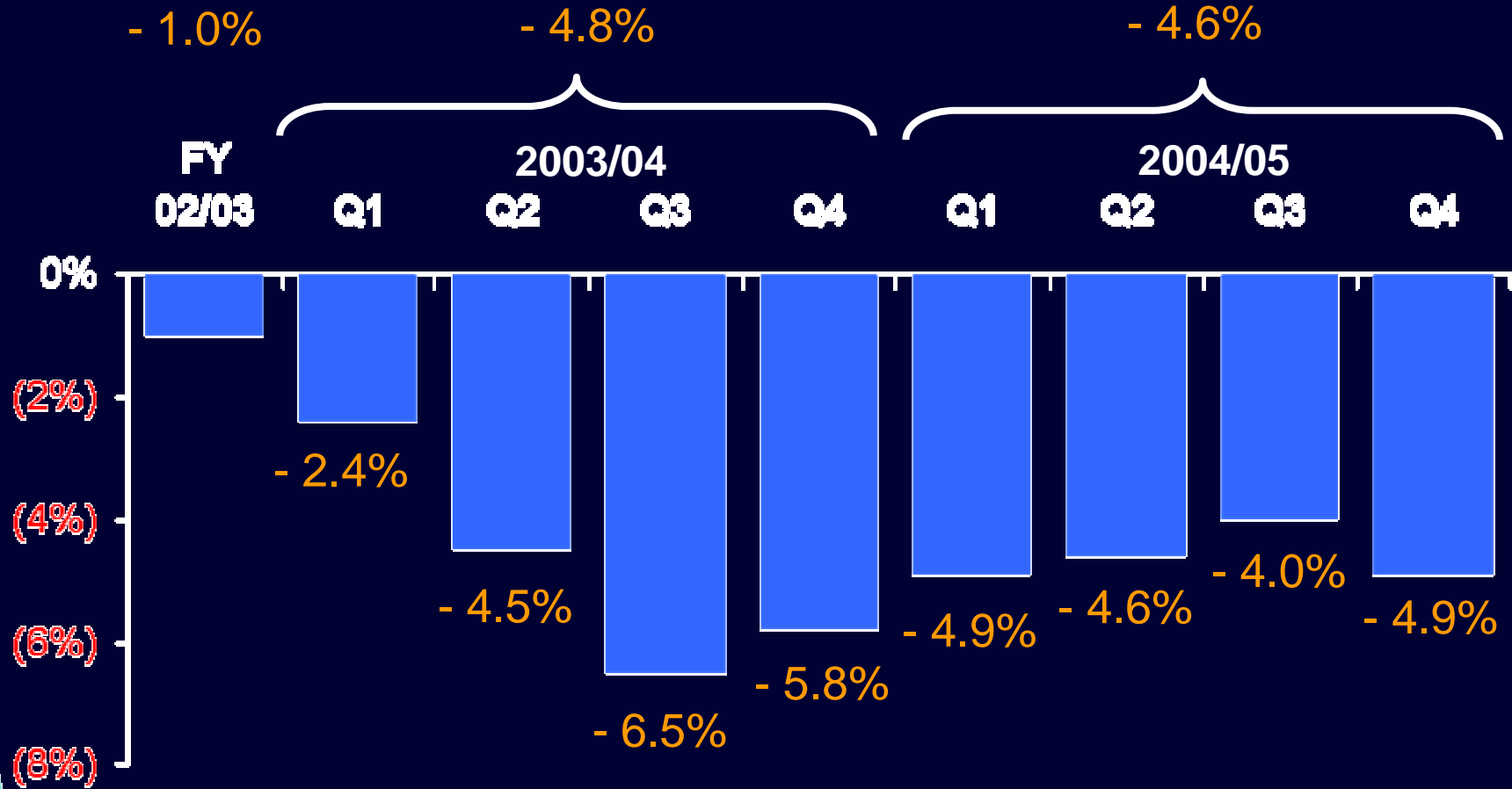


Mobility - more than just mobile

Project *Bluephone* will
be launched within weeks



Traditional turnover *



* Revenue growth versus same quarter in prior year adjusted for the impact of mobile termination cut



Traditional turnover - ongoing defence

Customer choice and value

- BT Together
 - Option 1 = standard offer since July 2004, 14.3m customers now
 - Option 2 = 1.3m up 8% on last year
 - Option 3 = 0.6m up 80% on last year
- BT Business Plan
 - Locations = 445k up 66% on last year
 - Customers = 309k up 76% on last year

Cost Leadership - achievements to date

From 01/02 to 03/04:

- Global Services opex savings £400m
- Wholesale cash cost savings £500m
- Retail SG&A savings £800m

In 04/05:

- Overall cost saving programmes £400m

Efficiencies in traditional enabling
investment in new wave

Cost Leadership - in the future

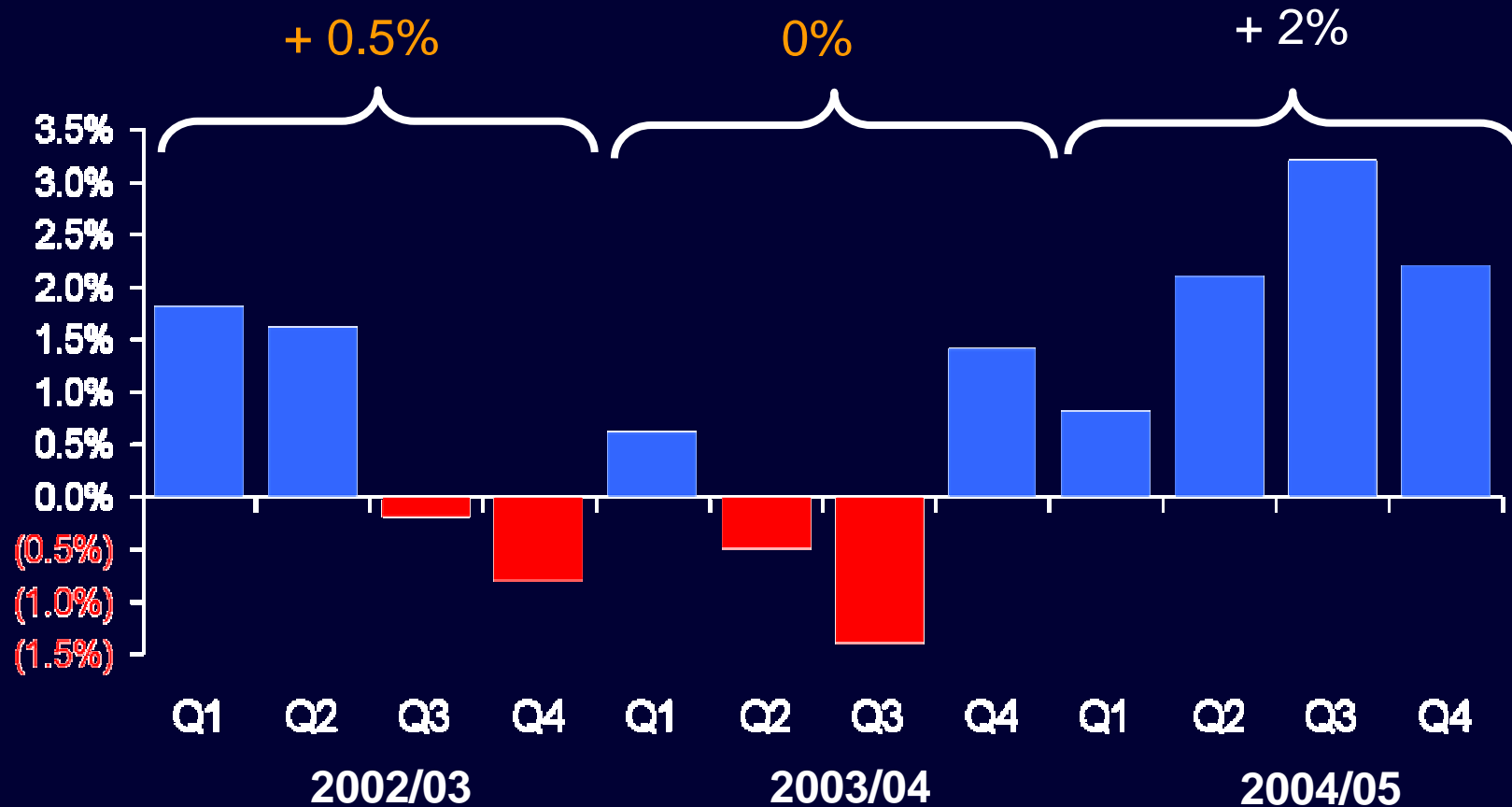
- Further savings from efficiency programmes of £300m - £400m per annum for next 3 years



Key Programmes

- 21st Century Network related
- Business process optimisation
- Synergies from de-duplication
- Continued overhead reduction

Transformation has delivered growth in revenue*



* 2002/3 growth is adjusted to take account of Concert unwind.
 2003/04 and 2004/05 adjusted for the impact of mobile termination cut
 excludes revenues from Albacom and Infonet



Transformation has created the platform to deliver convergence ...

New wave growth will continue

ICT

- very strong order book to translate into revenue

Broadband

- volume growth to continue
- value added services to grow

Mobility

- Bluephone launch
- machine to machine services
- BT Openzone and WiFi services

Traditional trends can improve

Traditional

- Dial IP substitution effect will slow
 - CPS volume growth is slowing
- but**
- transit growth will also slow

... and drive **GROWTH** in revenues



Transformation will also deliver improved profits

New wave margins

ICT

- more contracts mature in their life cycle

Broadband

- existing subscriber base increasingly larger than new additions

Mobility

- leveraging the convergence model and 21CN
- but increase in subscriber acquisition costs

Achieving cost leadership

Cost reductions to help offset gross margin decline

Achieve synergies from integration of acquisitions

21CN delivers a single network platform for all services

In the **NEXT** three years we will ...

Continue
to grow
revenues

Continue
to reduce costs
in traditional
areas

Continue
to deliver
innovation for
customers

Continue
to improve
new wave
margins

Continue
to unlock the
opportunities of
convergence

... drive **GROWTH** in *EPS*
and *Dividends*

