

Confident progress delivering transformation

Q2 & half year results 2005/6

10th November 2005



BT Group plc

Half year results 2005/6

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 revenue, mainly from broadband, networked IT services and mobility growth, and transformation of the business; the benefits of convergence, and implementation of BT's 21st Century Network; reduction in net debt and interest; BT's progressive distribution policy and rising dividend payout ratio; and expectations regarding revenue growth, earnings per share, EBITDA and cost savings.

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.



H1 2005/6 - Headline financials

Group revenue

£9.6bn



5%

Earnings per share*

9.5p



13%

Interim dividend

4.3p

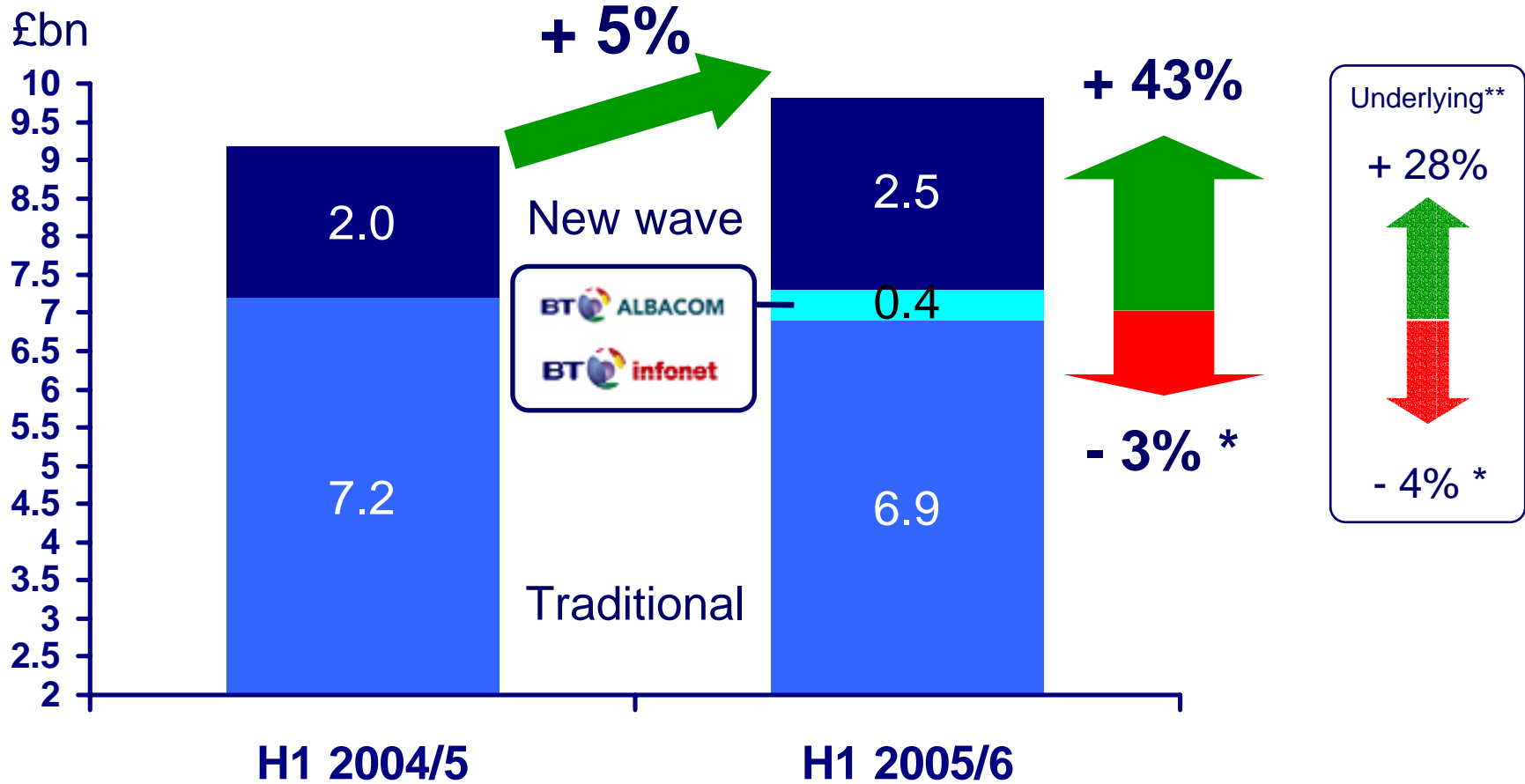


10%

* before specific items



H1 2005/6 - Group revenue

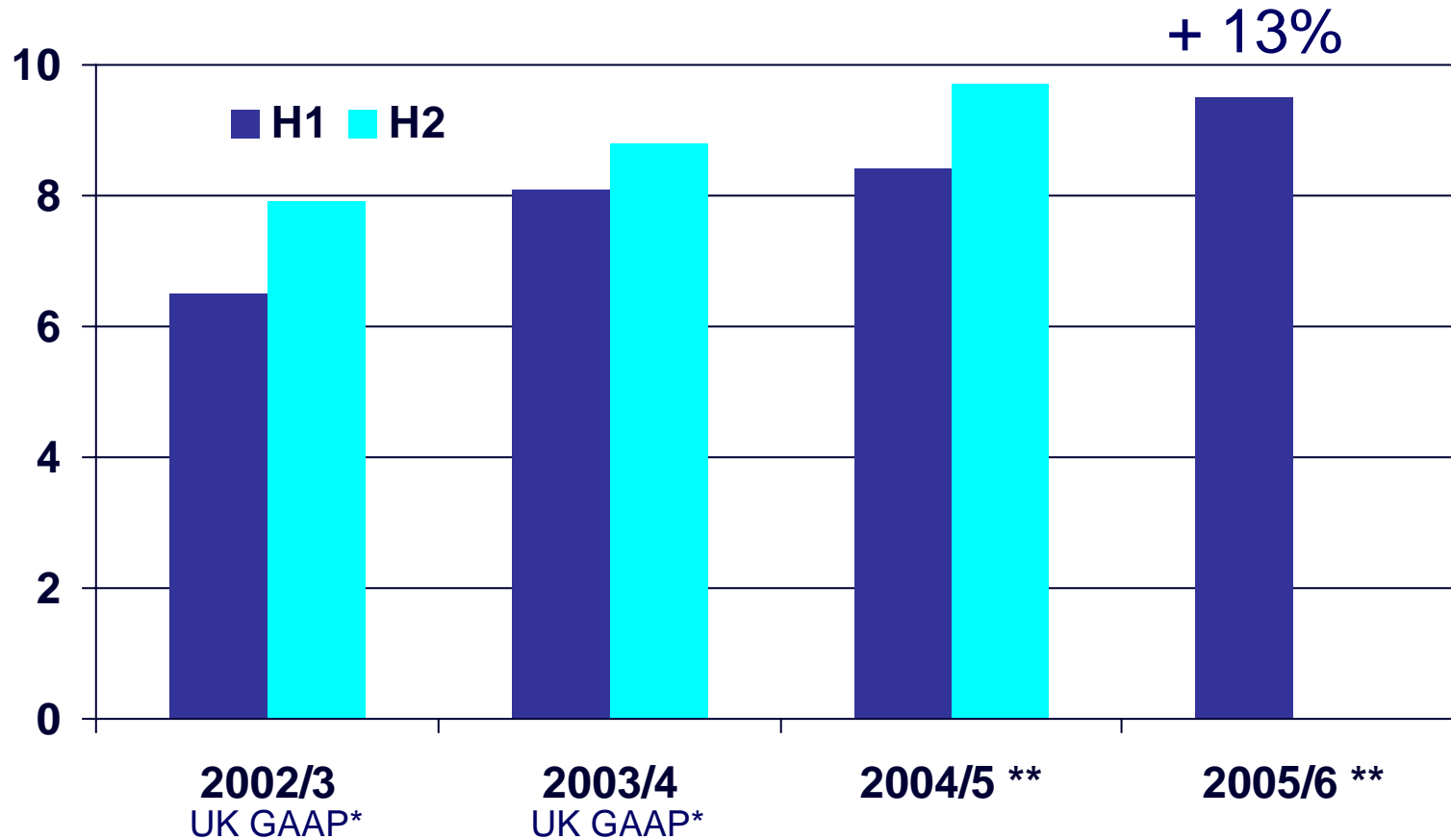


*adjusted for the impact of mobile termination cut
 **excluding Albacom & Infonet



Earnings per share

14 consecutive quarters of growth

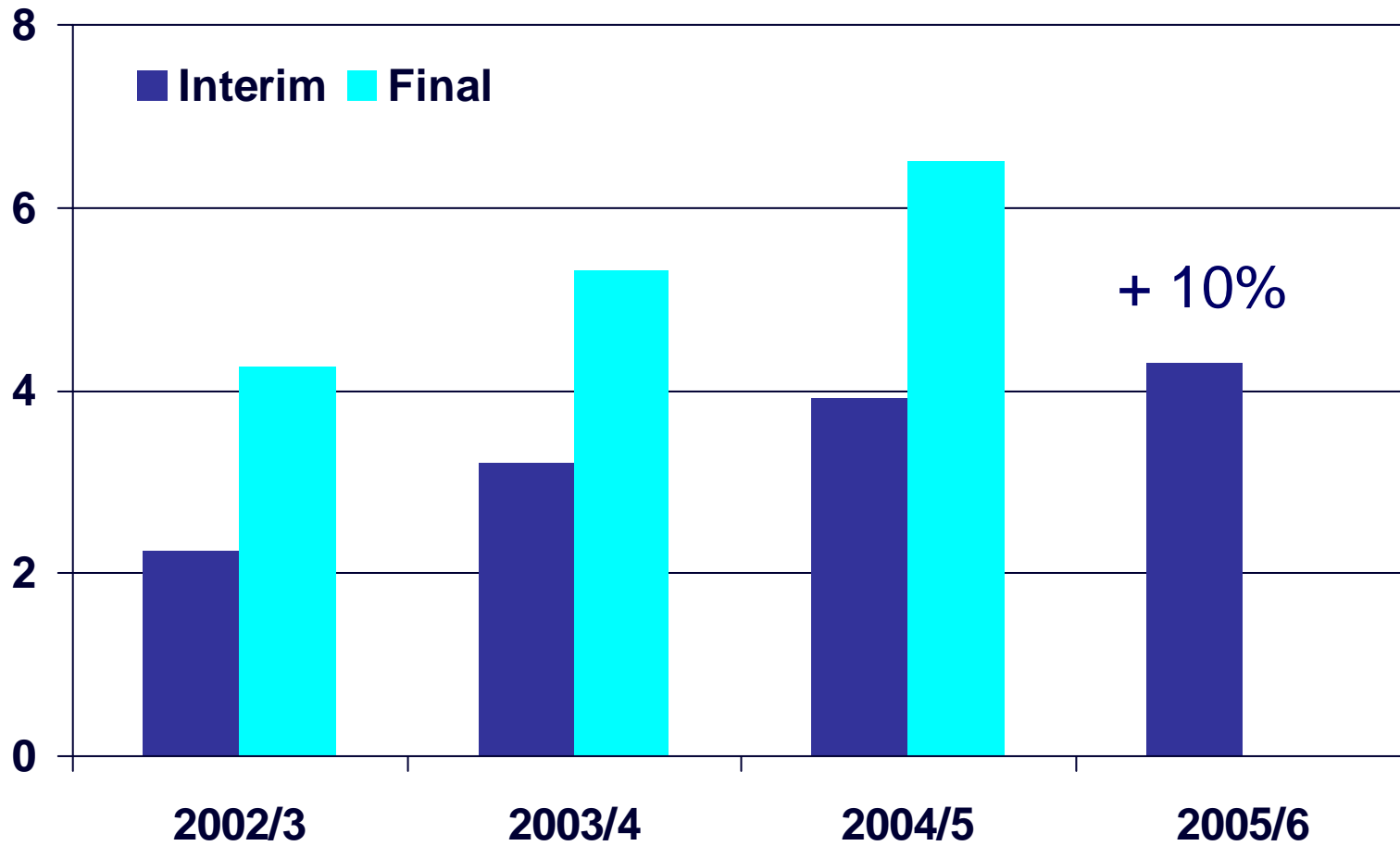


* before exceptional items and goodwill from continuing activities

** before specific items



Dividends



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

- **Buy back**

- repurchased 55m shares for £123m in first half

- **Net Debt**

- comfortable with net debt of around £8bn



BT Group plc

Q2 results 2005/6

Hanif Lalani – Group Finance Director



Q2 2005/6 – Financial headlines

Group revenue	£4.8bn		5%
---------------	--------	---	----

EBITDA* (pre leavers)	£1.4bn		2%
-----------------------	--------	---	----

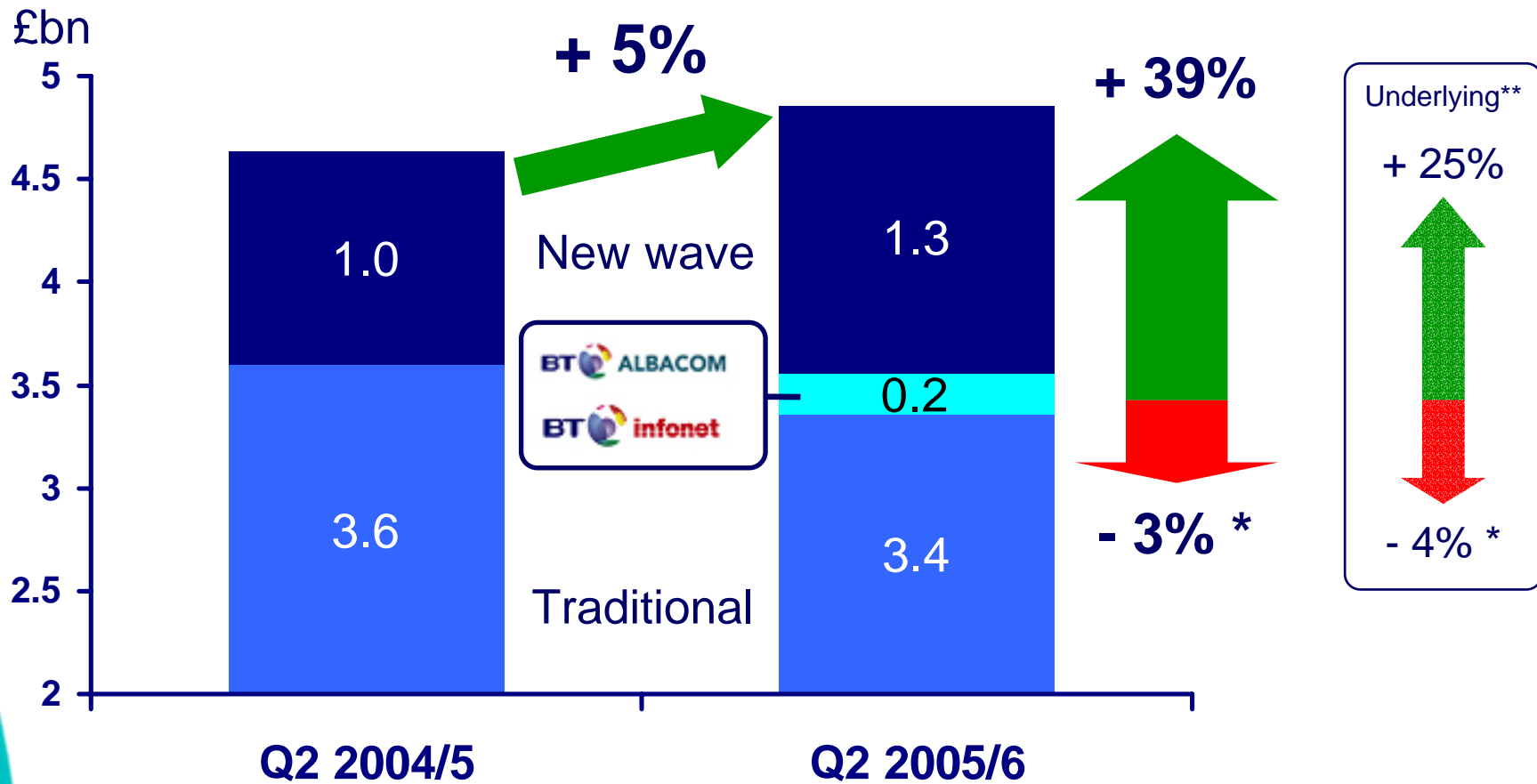
Profit before tax* (pre leavers)	£0.6bn		7%
----------------------------------	--------	---	----

Earnings per share *	5.0p		4%
----------------------	------	---	----

* before specific items



Q2 2005/6 - Group revenue

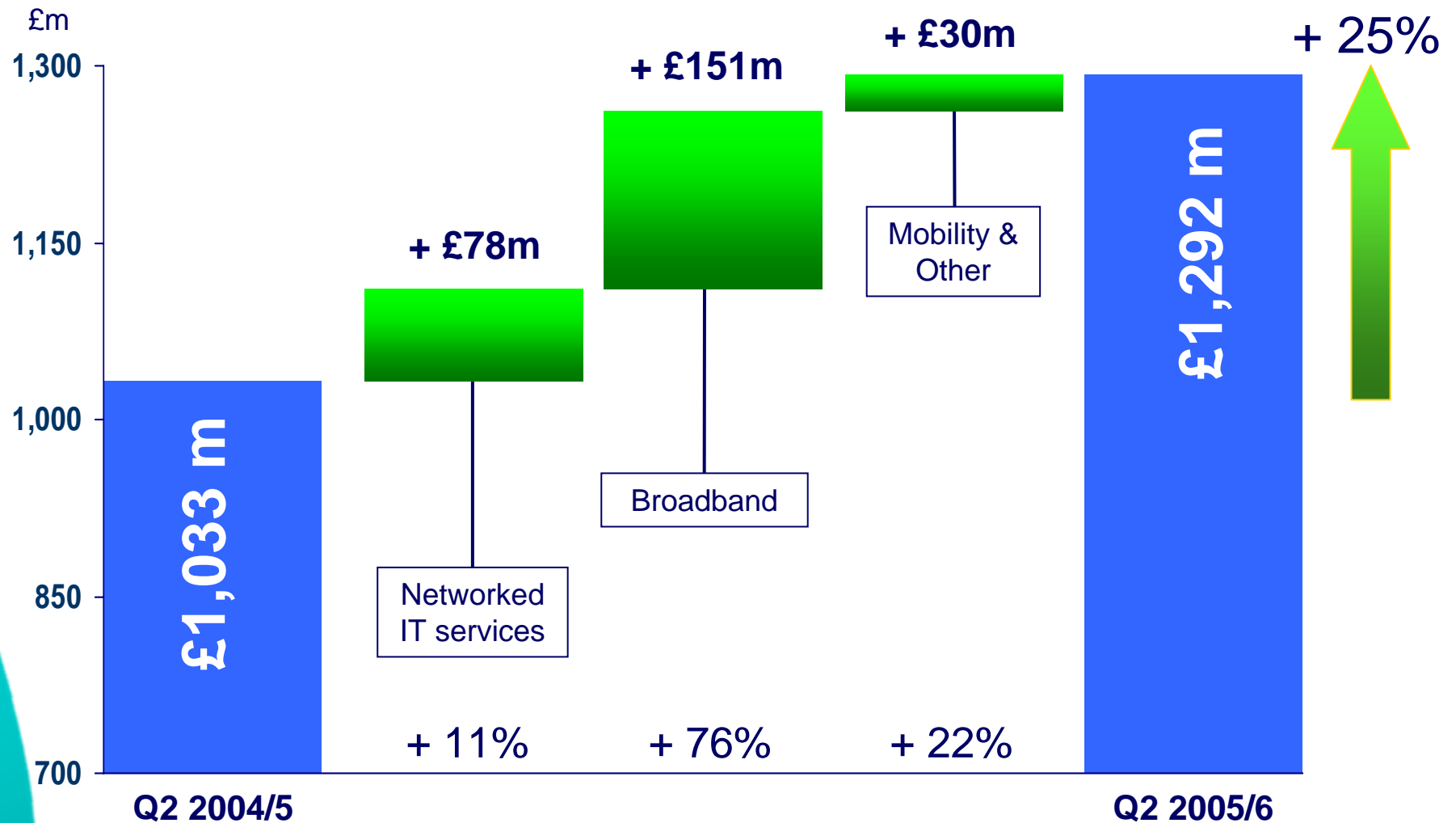


*adjusted for the impact of mobile termination cut

**excluding Albacom & Infonet



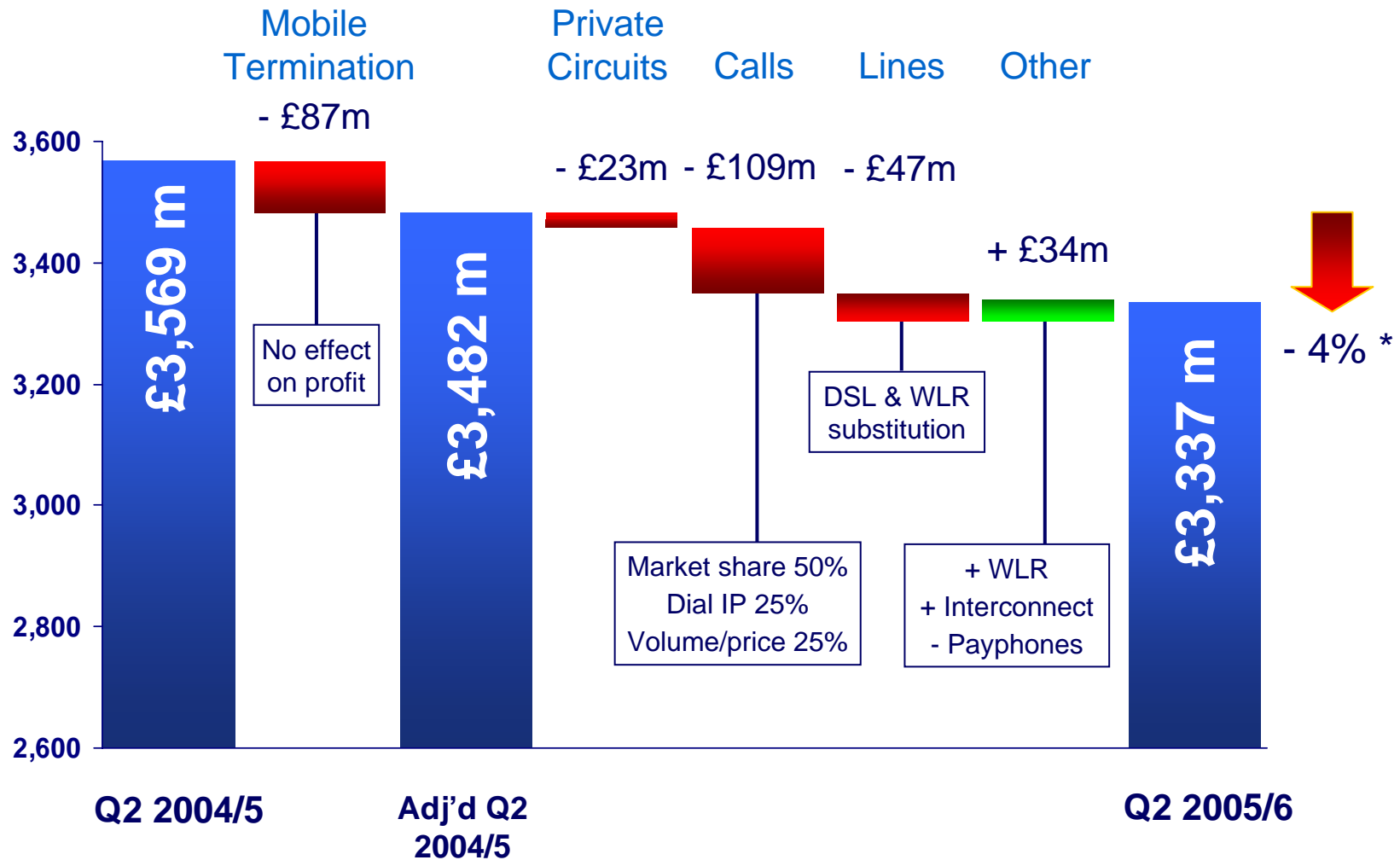
Q2 2005/6 - New Wave revenue



* excludes Albacom and Infonet



Q2 2005/6 - Traditional revenue

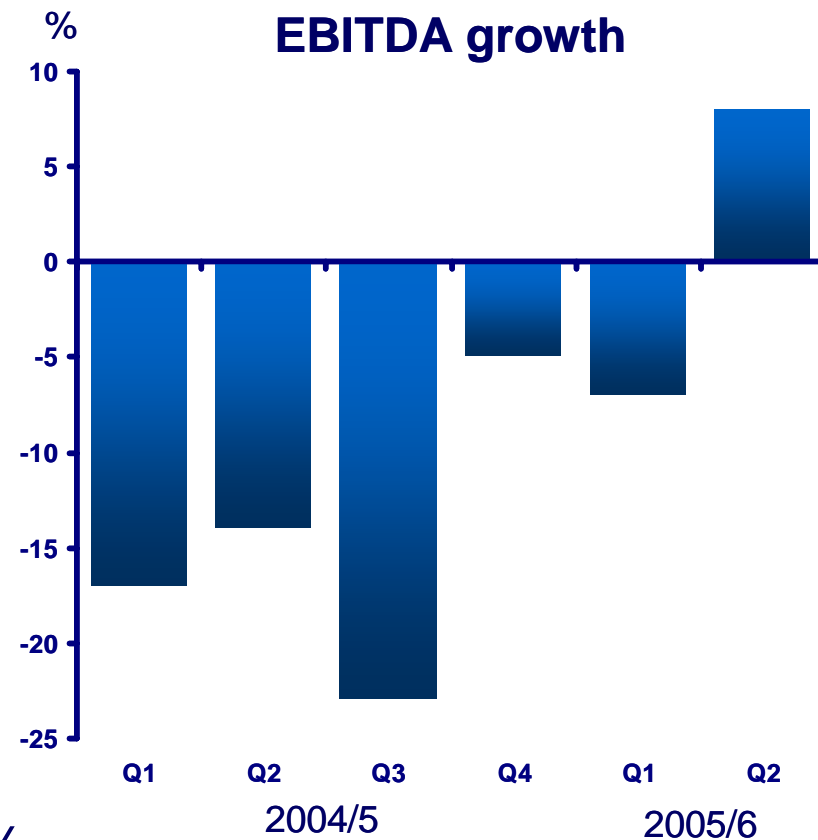


* adjusted for the impact of mobile termination cut and Albacom



Q2 2005/6 - BT Retail

- Revenue £2,136m down 3%*
 - Traditional, slow down in active customer losses to CPS and WLR
 - New wave, higher broadband rental base
- Gross margin up 1%
 - Traditional margins maintained
 - New wave margins improving
- SG&A reduced by 2%
- EBITDA up 8%**
- Operating profit £169m** up 9%

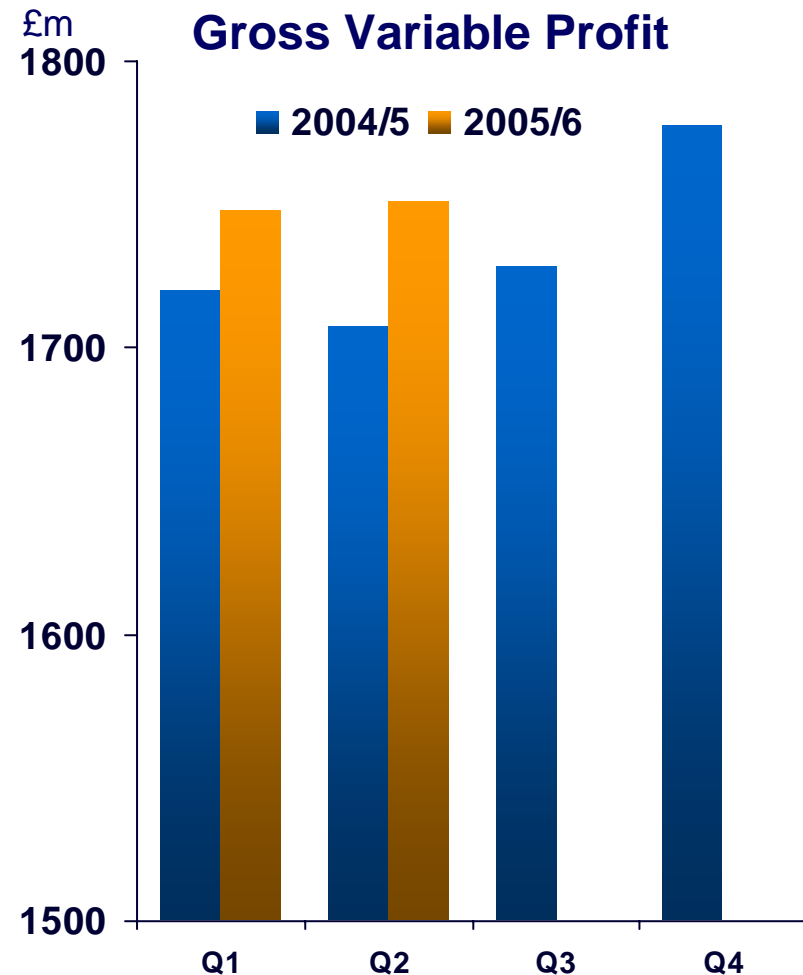


* adjusted for the impact of mobile termination rate cut
** before leavers and specific items



Q2 2005/6 - BT Wholesale

- Total revenue £2,278m up 3%*
 - External revenue up 14%*
 - Internal revenue down 4%
- Gross variable profit £1,751m up 3%
- Network and SG&A costs rose 6%**
- EBITDA** maintained
- Operating profit £506m** up 4%

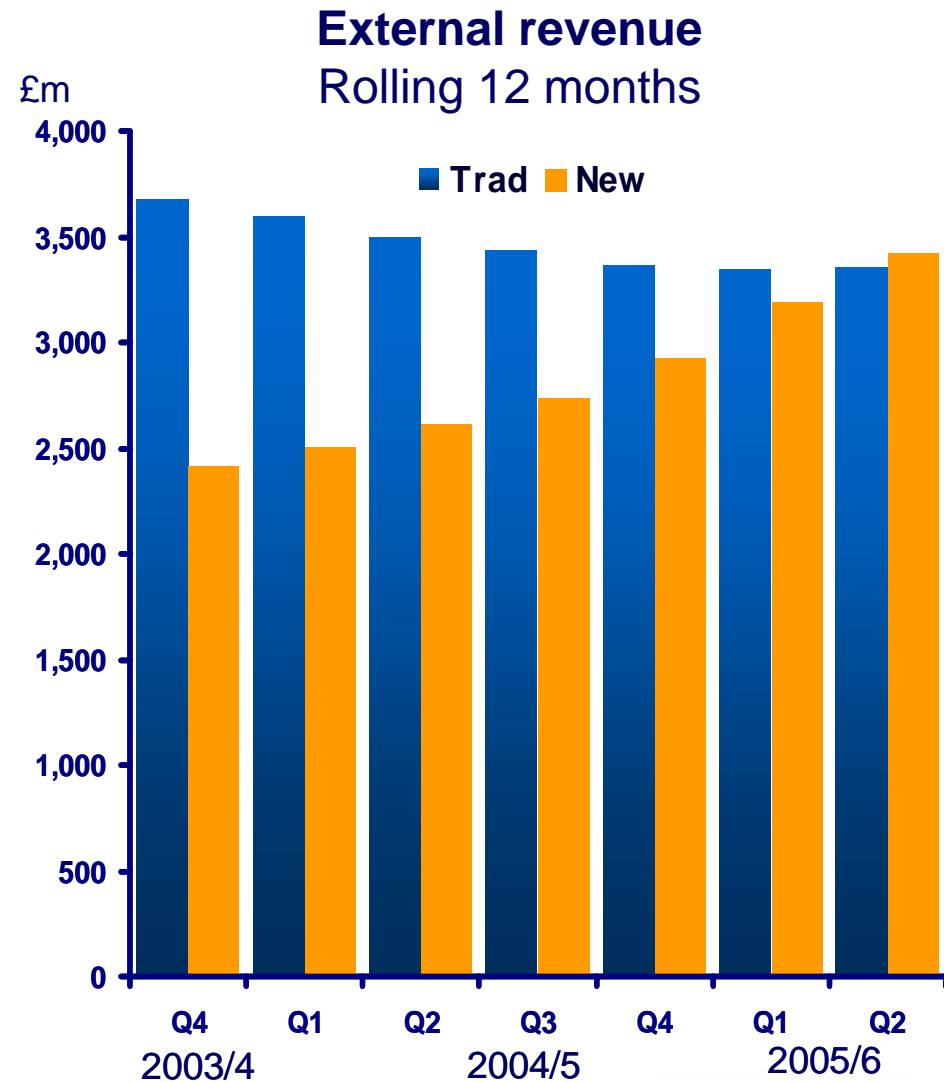


* adjusted for the impact of mobile termination rate cut
** before leavers and specific items



Q2 2005/6 - BT Global Services

- Revenue up 16% at £2,108m
 - Traditional, continuing migration to IPVPNs
 - New wave, re-sign success
- EBITDA** up 2%
 - leaver costs up £17m on prior year
- Operating profit** £79m down 17%



** before leavers and specific items



Q2 2005/6 - Group P&L

	2005/6 £m	2004/5 £m	Better / (Worse) £m
Turnover	4,822	4,602	220
EBITDA (pre leavers)	1,385	1,418	(33)
Leaver costs	(37)	(8)	(29)
Depreciation and other	(692)	(704)	12
Operating profit post leavers	656	706	(50)
Associates and other	3	(3)	6
Finance costs (net)	(100)	(154)	54
Profit before tax	559	549	10
Tax	(139)	(143)	4
<i>Tax rate</i>	<i>24.9%</i>	<i>26.0%</i>	<i>1.1%</i>
Profit for the period	420	406	14
Earnings per share (pence)	5.0p	4.8p	0.2p

*all numbers are before specific items



Q2 2005/6 - P&L, IFRS impact

	<u>2005/6 £m</u>	<u>2004/5 £m</u>
Employee benefits	(23)	(20)
Share based payments	(13)	(8)
Leases	(20)	(23)
Other (incl. foreign exchange impact)	(3)	5
	<hr/> (59)	<hr/> (46)
Sale of property	-	15
	<hr/> (59)	<hr/> (31)
EBITDA		
Depreciation / Amortisation	(3)	(1)
	<hr/> (62)	<hr/> (32)
Operating profit		
Net interest on pension	64	49
Sale of property	-	(15)
Other (incl. financial instruments)	(15)	(2)
LG Telecom	31	-
	<hr/> 18	<hr/> -
Profit before tax		

No impact on free cash flow



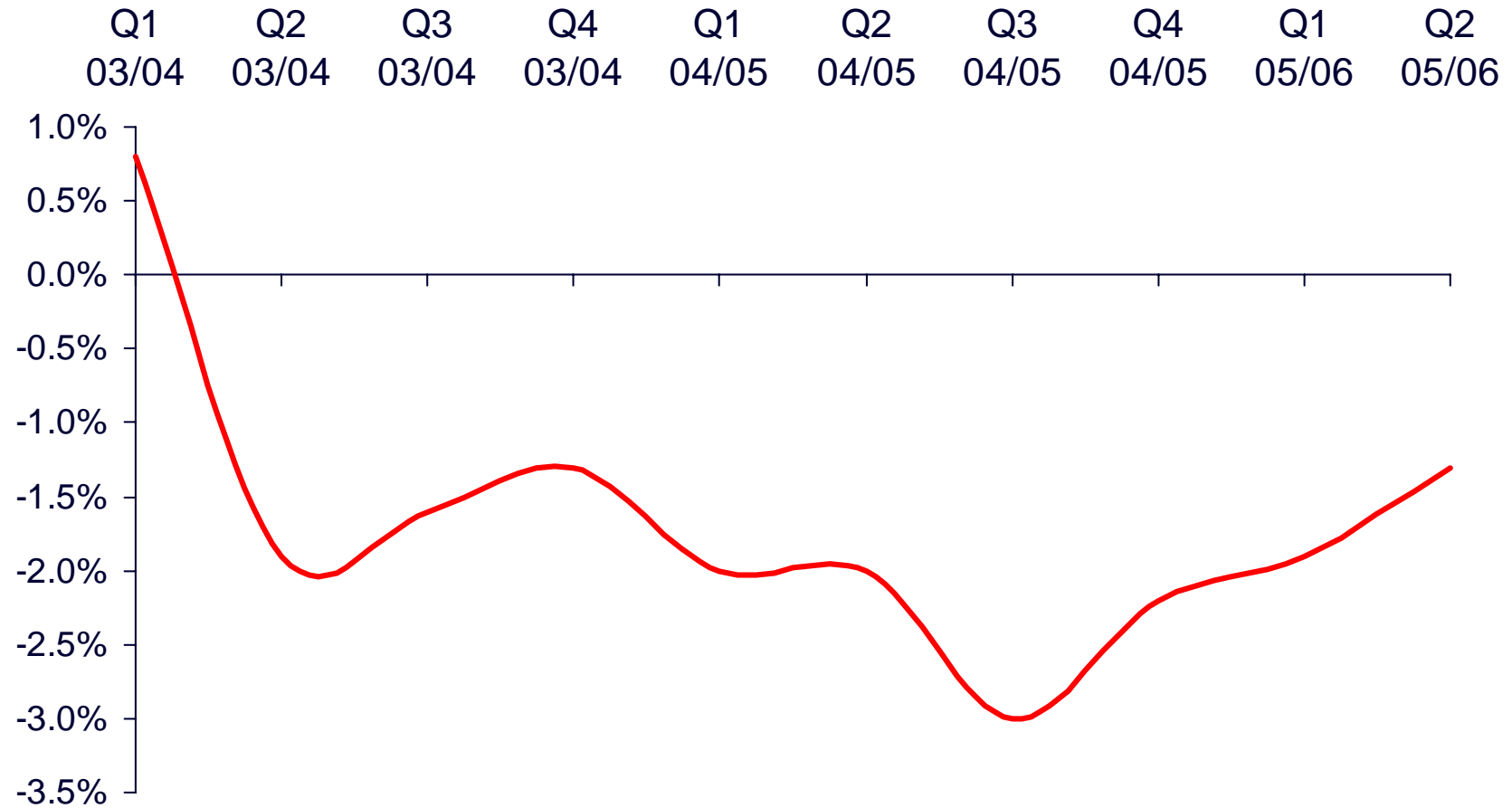
Q2 2005/6 - Free cash flow

	Q2 2005/6 £m	Q2 2004/5 £m	Better / (Worse) £m
EBITDA post leavers	1,348	1,410	(62)
Interest (net)	(88)	(97)	9
Tax paid	(111)	(1)	(110)
Capex (net of disposals)	(671)	(726)	55
Working capital and Other	25	8	17
Free cash flow	503	594	(91)
Net Debt	8,133	8,373	240

Q2 2005/6 - net debt and interest

- Net debt £8.1bn
 - Short-term Investments c. £4.5bn
 - c. £4.4bn of gross debt repayable by Mar 2006
- Net interest rate c 9.5%
 - Will reduce to around 8.5% in 2006/07 following repayment of debt with surplus cash
 - » worth c £80m in reduced interest
 - Interest rate SWAPs means that we are small net borrowers at floating rates
 - Long term falling below 8%

EBITDA* - year on year trend



* before exceptionals / specific items, leaver costs and sale of property in Q2 2004/5



BT Group plc

Q2 & half year results 2005/6

Ben Verwaayen - CEO



Our strategy is delivering transformation

Defend traditional

- Improved service
- Price innovation
- Reduce costs / improve margin
- Aggressive & creative marketing



Long term
Partnership
with our
customers

Grow New Wave

- Networked IT services
- Broadband
- Mobility

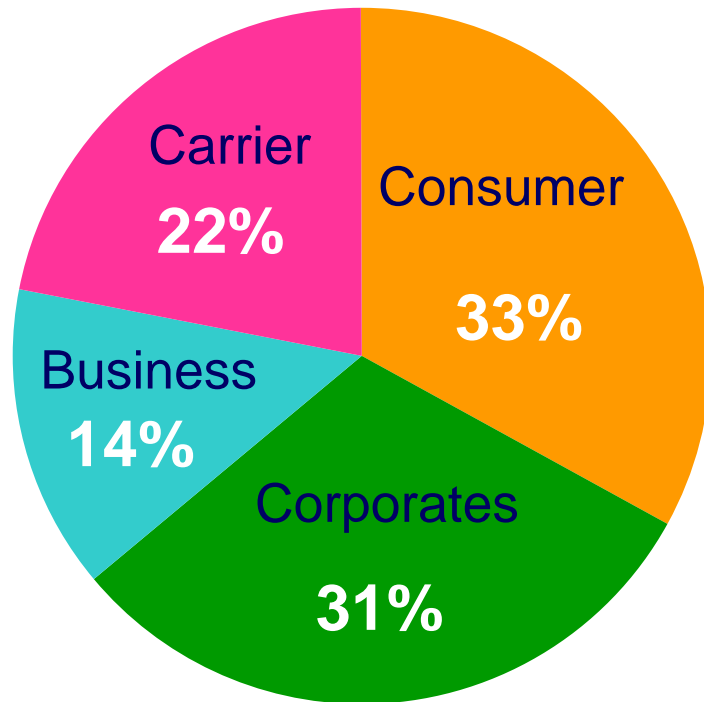


21st Century Network

Top line transformation - underpins performance

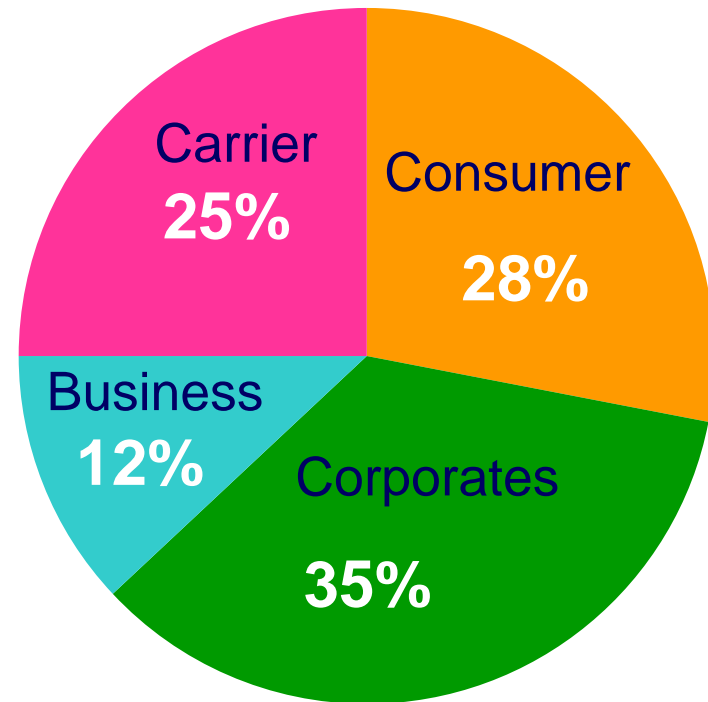
2002/3

H1 Group Revenue



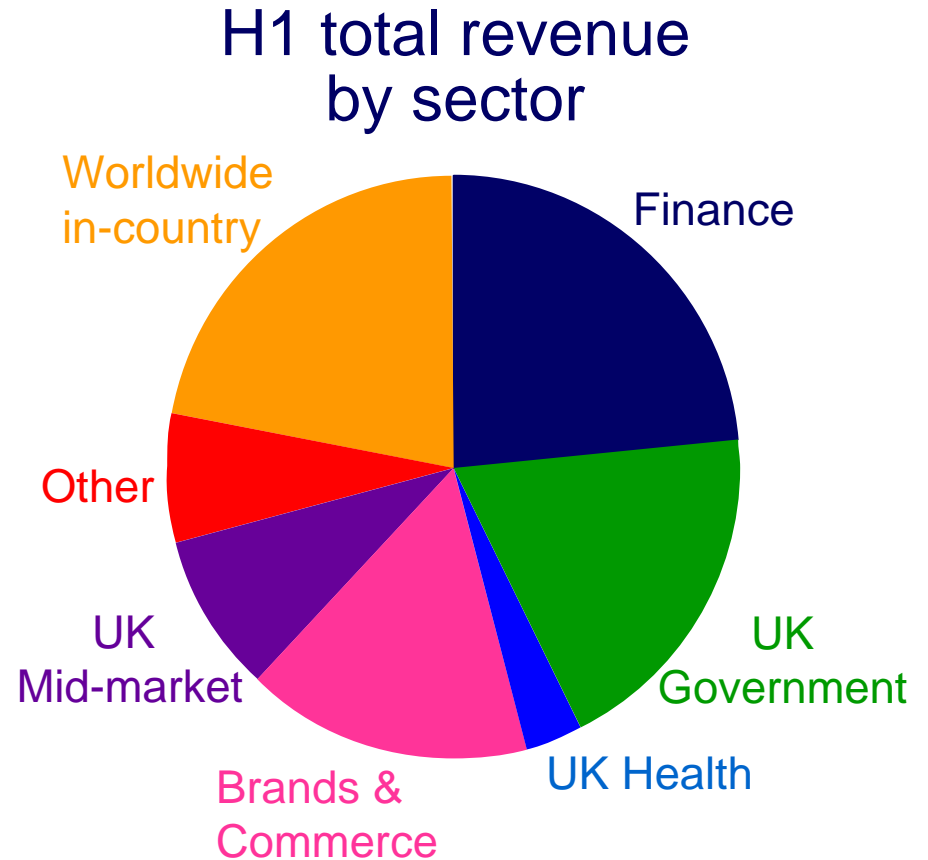
2005/6

H1 Group Revenue



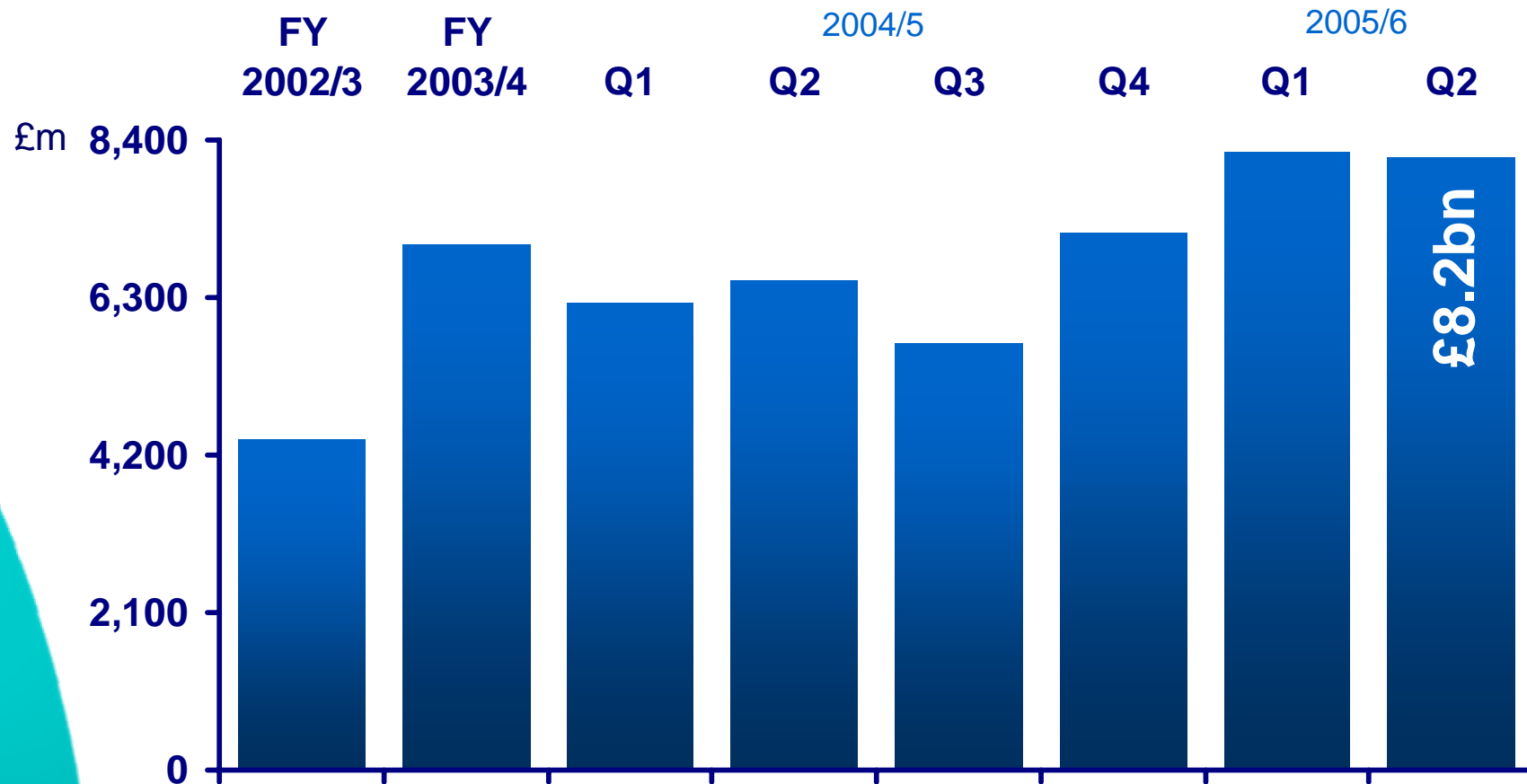
Corporates - convergence already a reality

- Accounts for 35% of our revenues
 - 51% on new wave
- Customer base across a spectrum of markets
 - UK accounts for 57%
 - International accounts for 43%
 - global reach delivers service in over 170 countries
 - order intake remains strong

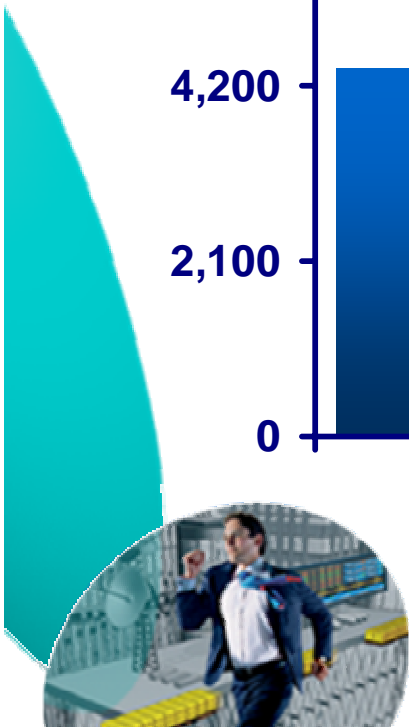


Networked IT services - building the base

Rolling 12 months order intake *

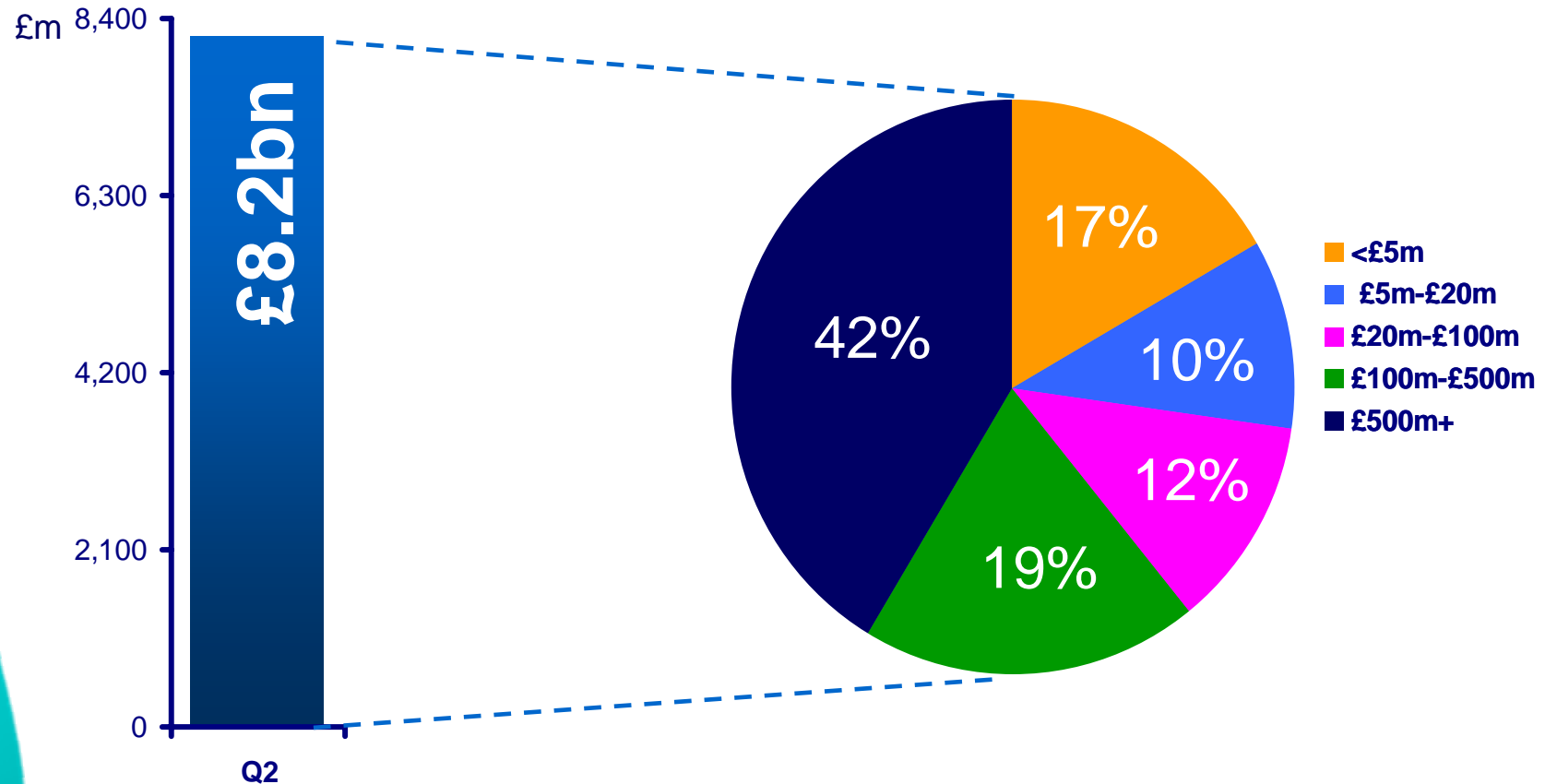


* Sales Order Value of networked IT services contracts

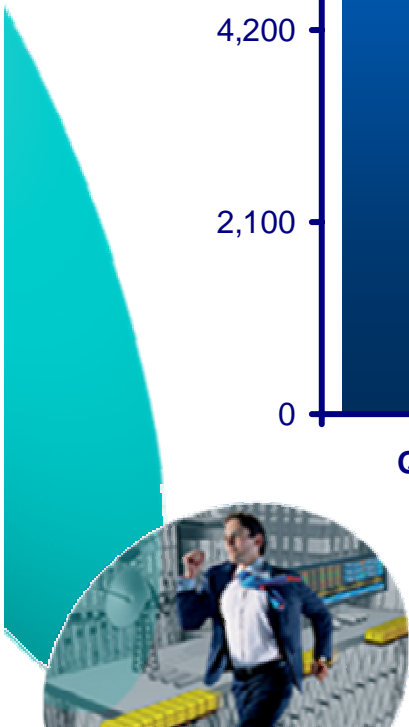


Networked IT services - building the base

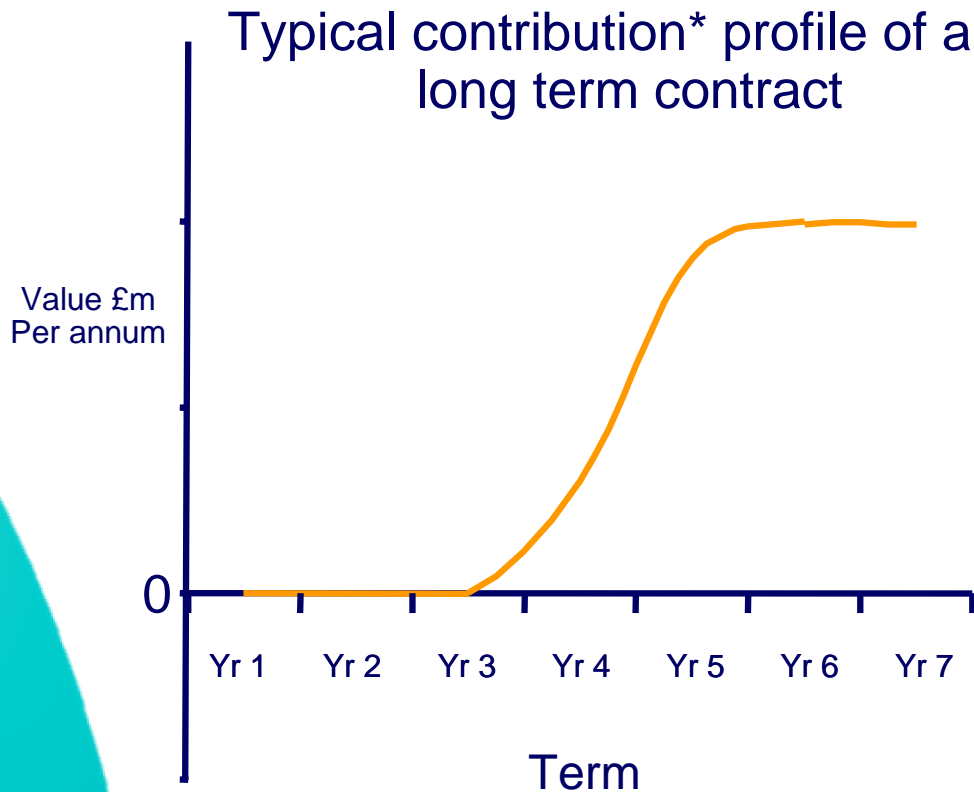
Rolling 12 months order intake by contract size *



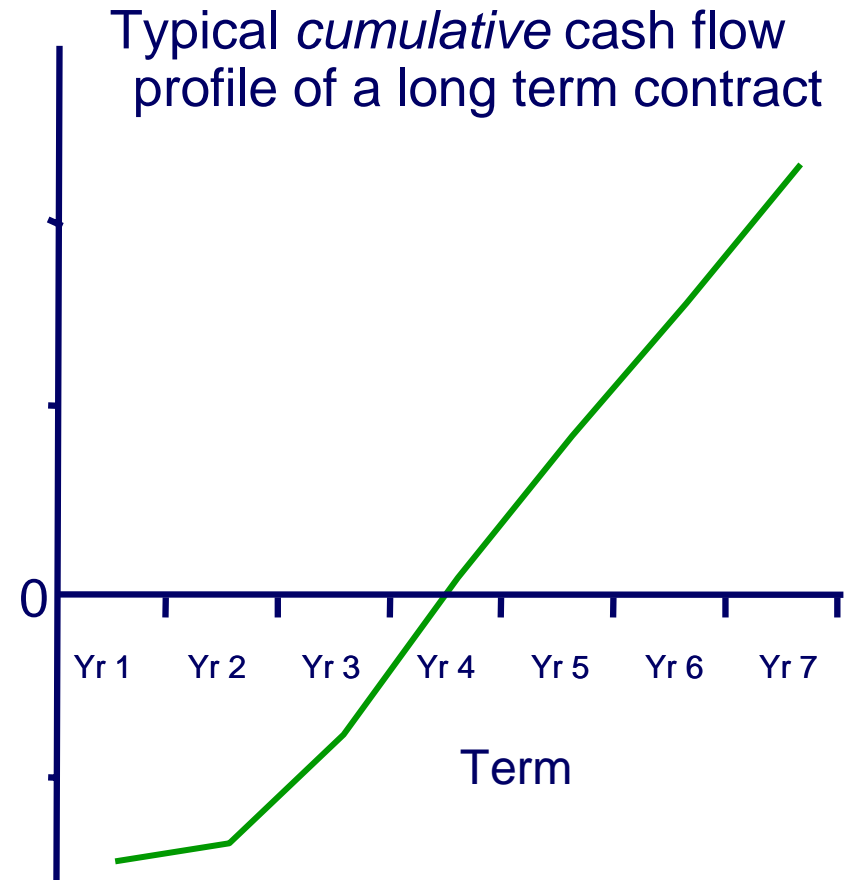
* Sales Order Value of networked IT services contracts



Networked IT services - profitability



* Excludes allocation of fixed costs



Networked IT services - recent wins

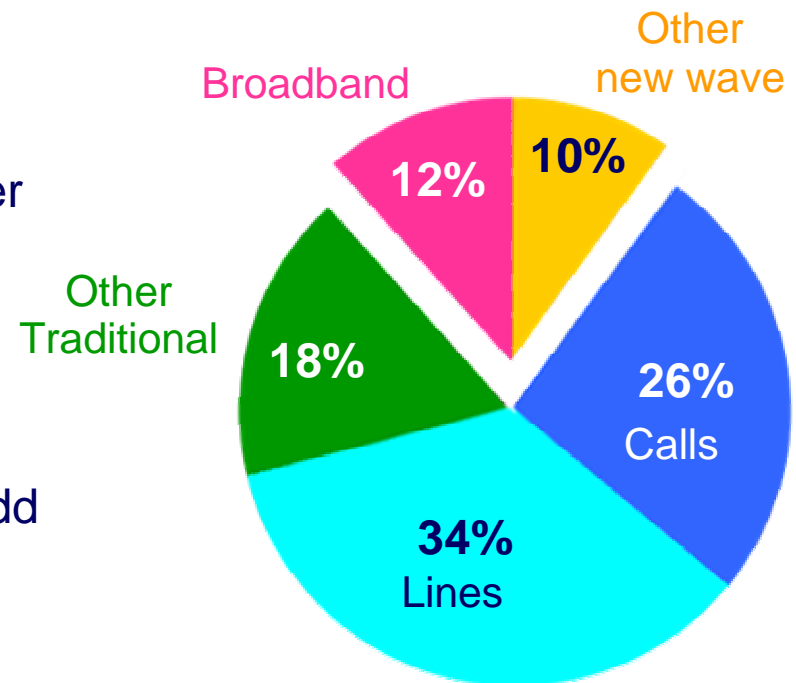
- Q2 wins worth £0.8bn
 - Ministry of Defence
 - TD Waterhouse
 - Hong Leong Bank (Malaysia)
 - Software AG (Germany)
- And in Q3
 - NHS Scotland



Business - growing through convergence

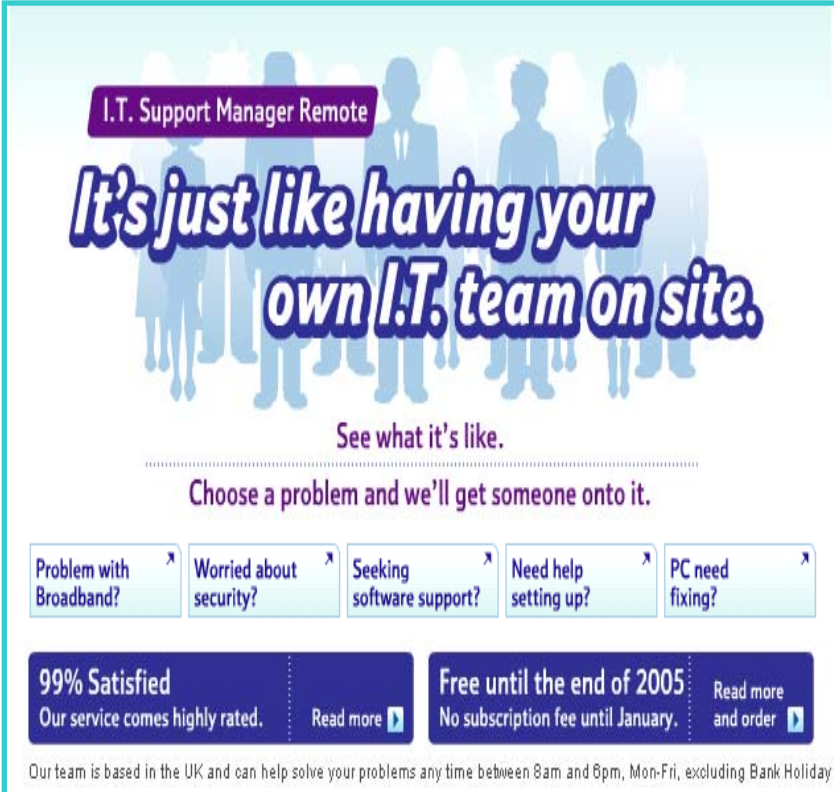
- Accounts for 12% of our revenues
 - spend 22% on new wave
- Voice
 - market share maintained
 - BT Business plan accounts for over 50% of BT Business call revenue
- Broadband
 - 25,000 net additions in Q2
 - total customer base now 396,000
 - recent attachment rate for value add services > 100%
- BT Classified
- BT Conferencing

2005/6 H1 Revenue £1.2bn



Business - growing through convergence

- BT Business Broadband
 - all new Broadband sales include VoIP enabled modem
 - IT Support Manager
- Business Plan with Mobile
 - driving mobile acquisition whilst defending fixed services
- Small Business on the Move
 - *Datazone*
 - combined Openzone/GPRS/3G connectivity
 - one clear package and one clear bill



I.T. Support Manager Remote

It's just like having your own I.T. team on site.

See what it's like.

Choose a problem and we'll get someone onto it.

Problem with Broadband?	Worried about security?	Seeking software support?	Need help setting up?	PC need fixing?
-------------------------	-------------------------	---------------------------	-----------------------	-----------------

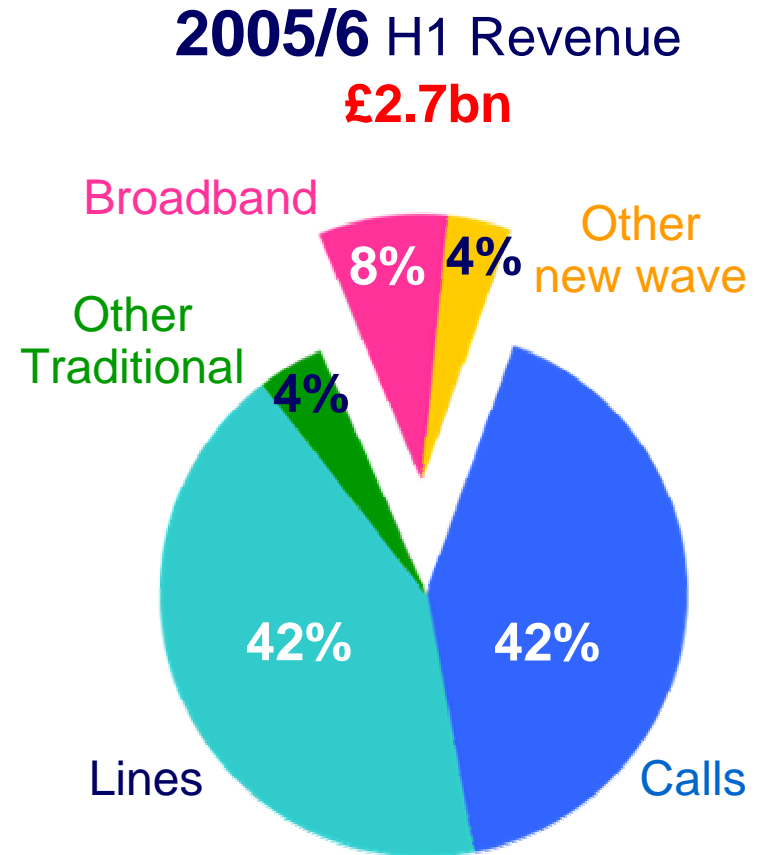
99% Satisfied
Our service comes highly rated. [Read more](#)

Free until the end of 2005
No subscription fee until January. [Read more and order](#)

Our team is based in the UK and can help solve your problems any time between 8am and 6pm, Mon-Fri, excluding Bank Holiday

Consumer - unlocking power of convergence

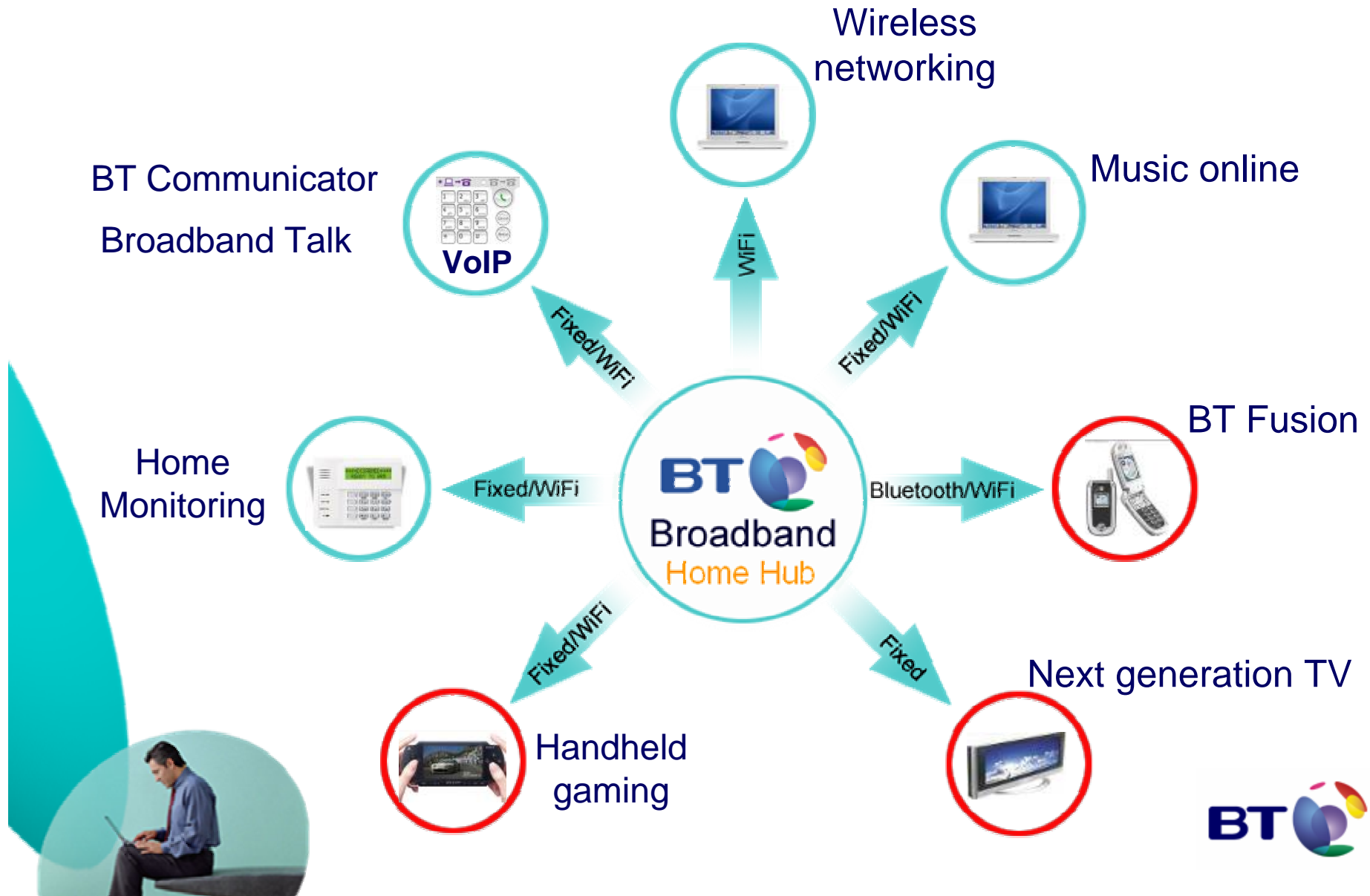
- Accounts for 28% of our revenues
 - 12% is new wave
 - 65% of total under contract
 - annual household ARPU* £253, down £1
- Voice
 - 1.8m customers signed up to BT Privacy
- Broadband
 - 139k net additions in Q2
 - total consumer base now 1.625m



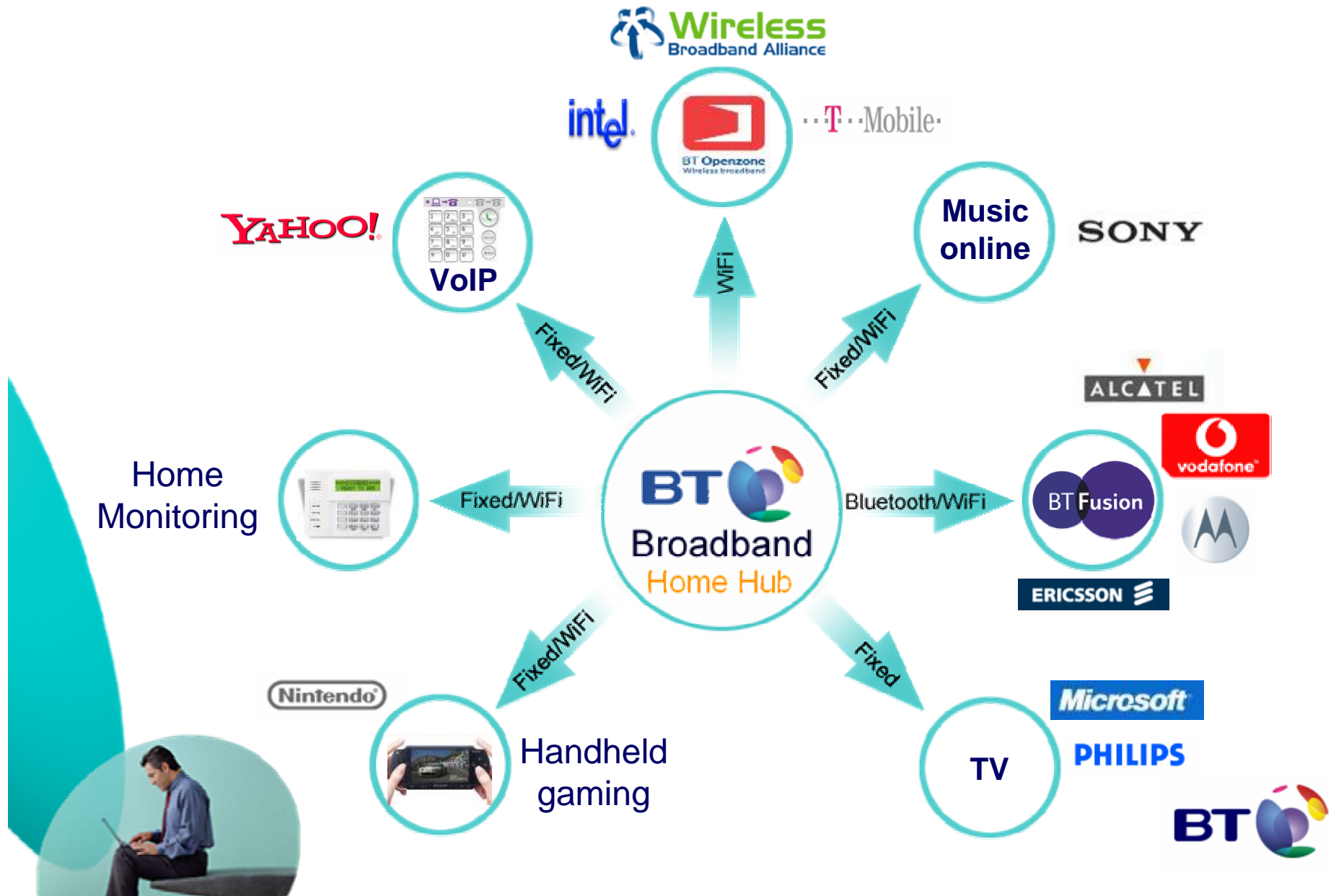
* Rolling 12 month consumer revenue, less mobile polos, divided by average number of primary lines



Convergence - unlocking opportunities



Convergence - working with world class partners



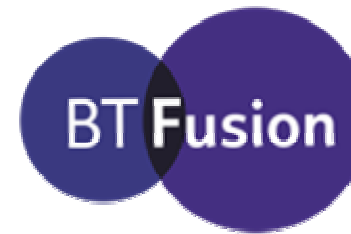
BT Fusion - convergence in action

Rollout

- Over 20,000 pre-registered customers
- Selling since September
- Marketing now to existing BT Retail Broadband customers
- Marketing to new customers together with BT Broadband

Future

- V3 Razzr
- SME business offering
- Wide range of GSM/WiFi phones
 - Samsung, LG, Motorola and Nokia



BT Fusion - available now

Order BT Fusion today. Our special launch prices start at just £9.99 a month for the first 12 months with cashback offer¹ including 100 any network, anytime minutes a month.

[order now](#)



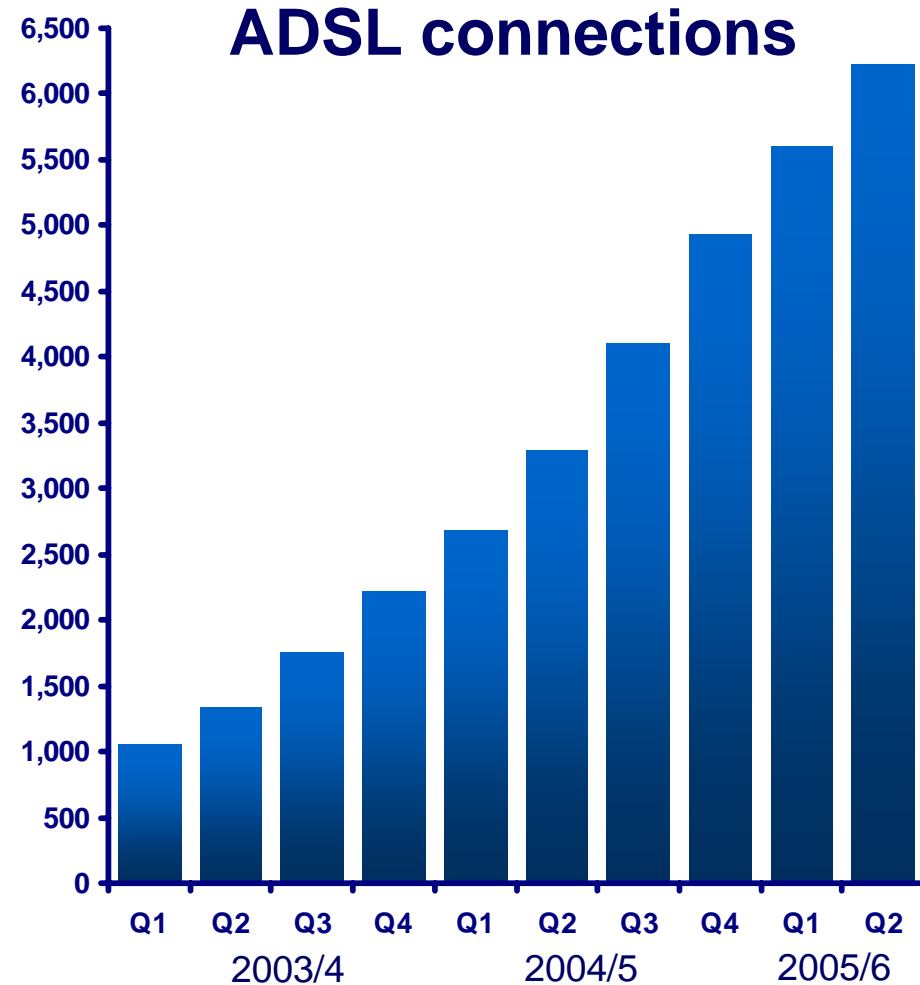
More than a mobile
Great value
Wireless living
In-home mobile coverage
Easy set-up

BT Fusion
the first intelligent mobile service...



Carrier - facilitating convergence

- Accounts for 25% of our revenues
 - total Q2 revenue up 12%*
 - 20% is new wave
- Voice
 - WLR, expected to grow
- Broadband
 - total ADSL connections **6.2m**
 - **631,000** net additions in Q2
 - LLU, more competitors outlining investment plans



* adjusted for the impact of mobile termination rate cut and Albacom



21CN - update

- Network readiness
 - Cardiff Implementation: All 50 sites audited for security and infrastructure
 - more than 5,000 people have undertaken 21CN training
- Trials
 - integrated Voice Line Cards being trialled at 7 sites
 - 30 MSANs from preferred suppliers in conformance testing
 - live end to end IP calls over actual 21CN network planned for Q4 2005/6
- National migration
 - expecting industry agreement on rollout plan by Q4 2005/06
- Contracts
 - equipment delivery on track

Regulation - update

- openreach (Access Services division)
 - CEO and top management team in place
 - to commence operations January 2006
 - more than £4bn of revenue pa and c£8bn of net assets
 - to be reported as separate line of business from Q1 2006/7

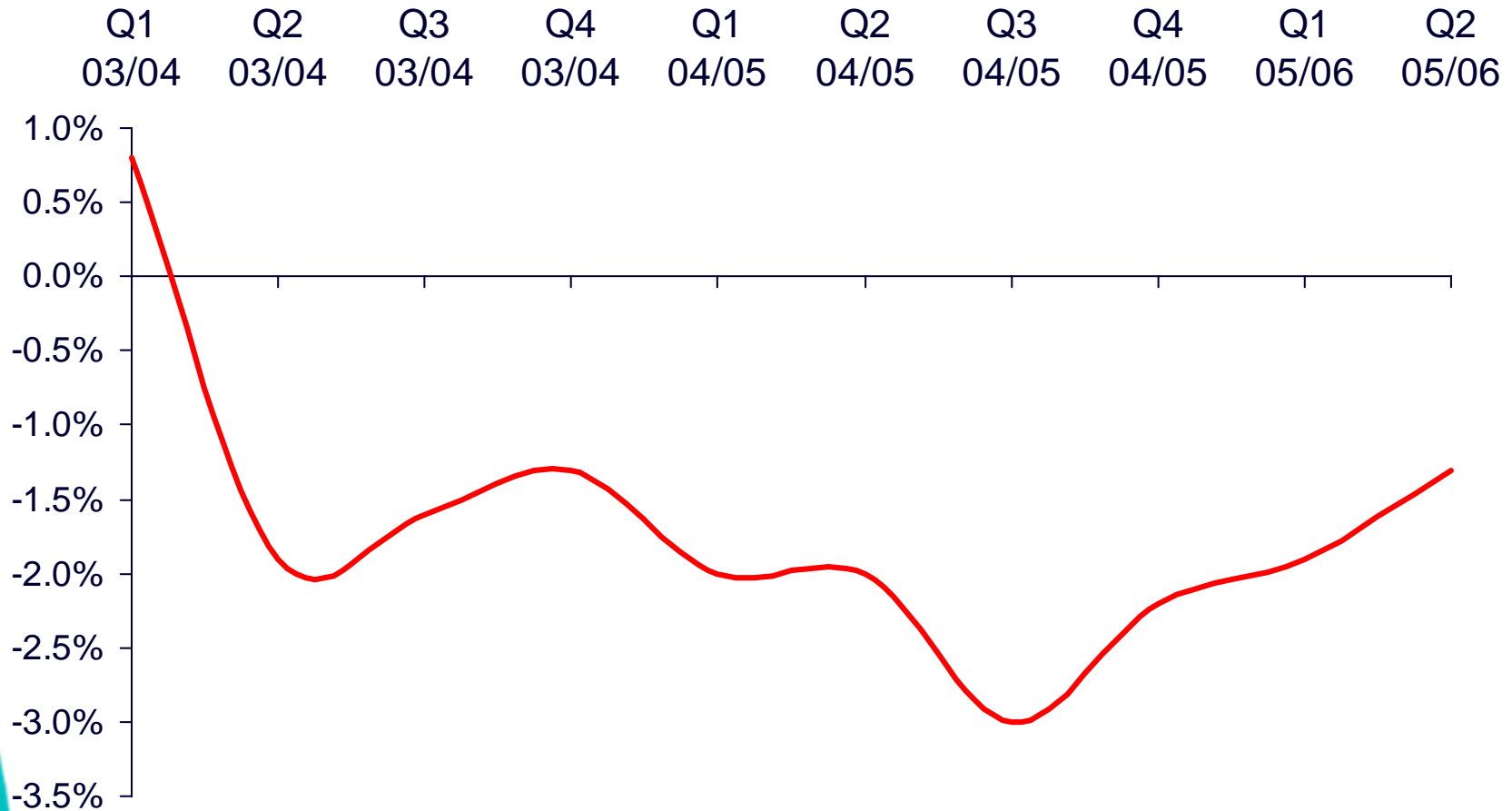


- Deregulation

- consultation to allow BT to offer unpublished, bespoke prices to large business market
- Network Charge Control Relaxed from RPI - 9% to RPI - 4.5%
- OFCOM consulting on WLR “fit for purpose” status positive outcome will result in relaxing of Retail Price Control to RPI+0%
- consultation on competitors’ replicability on business calls, lines and PCs. Replicability would allow BT to bundle SMP products



EBITDA* - year on year trend



* before exceptionals / specific items, leaver costs and sale of property in Q2 2004/5



EBITDA - delivering further improvement

H2 2005/6

- Centralised billing
- Network operation efficiencies
- IT systems, process savings
- Synergies within Global Services
 - integration of acquisitions
 - removal of duplication with corporate channel
- Overhead reductions

... deliver c £400m of savings this year



EBITDA - delivering further improvement

Looking
forward

- Networked IT services contracts maturing over time
- Reduced impact of decline in legacy margins
 - eg. dial IP
- Leverage capabilities in networked IT services to address needs of SME market
- Increase consumer ARPU with value add services
- Further cost efficiencies
- 21st century network

... continued delivery on the bottom line



Summary - transformation delivering

- No.1 telco for innovation
- Building a global brand
- Delivering growth where it matters
 - Revenue
 - Earnings per share
 - Dividends

... confident progress, delivering transformation



BT Group plc

Q2 & half year results 2005/6

10th November 2005

