Bringing it all **T**ogether

Q2 results 2006/7

9th November 2006

BT

BT Group plc

Q2 results 2006/7

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 revenue, EBITDA, earnings per share and dividends; growth in new wave revenue, mainly from networked IT services, broadband and mobility growth; Global Services' EBITDA margin; implementation of 21CN, new capabilities and the migration plan; introduction of next generation products and services; growth in non-UK business; and cost efficiencies.

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.

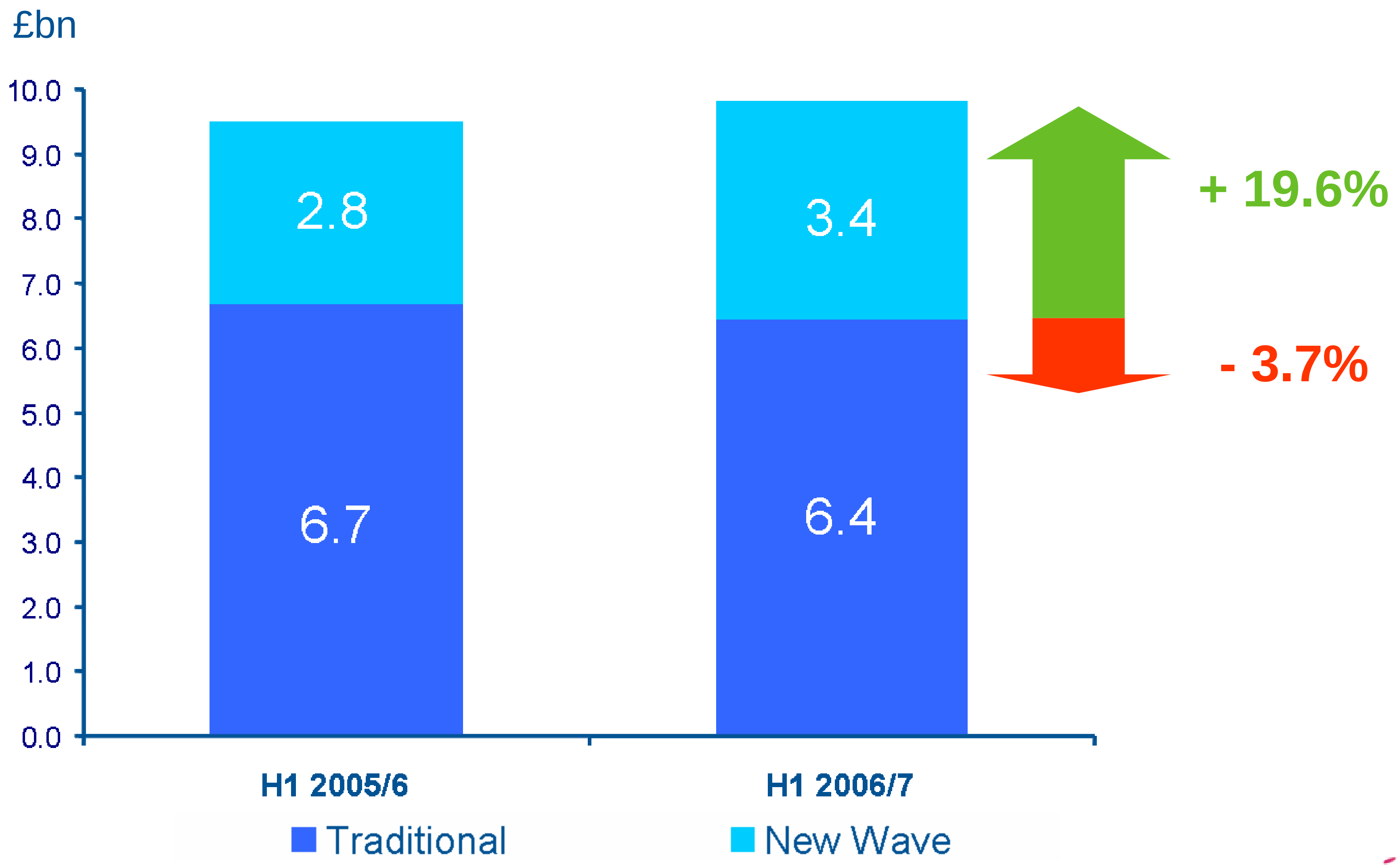
Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; the anticipated benefits and advantages of new technologies, products and services, including broadband and other new wave initiatives, not being realised; developments in the convergence of technologies; fluctuations in foreign currency exchange rates and interest rates; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; the timing of entry and profitability of BT in certain communications markets; 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 2006/7 - Financial headlines

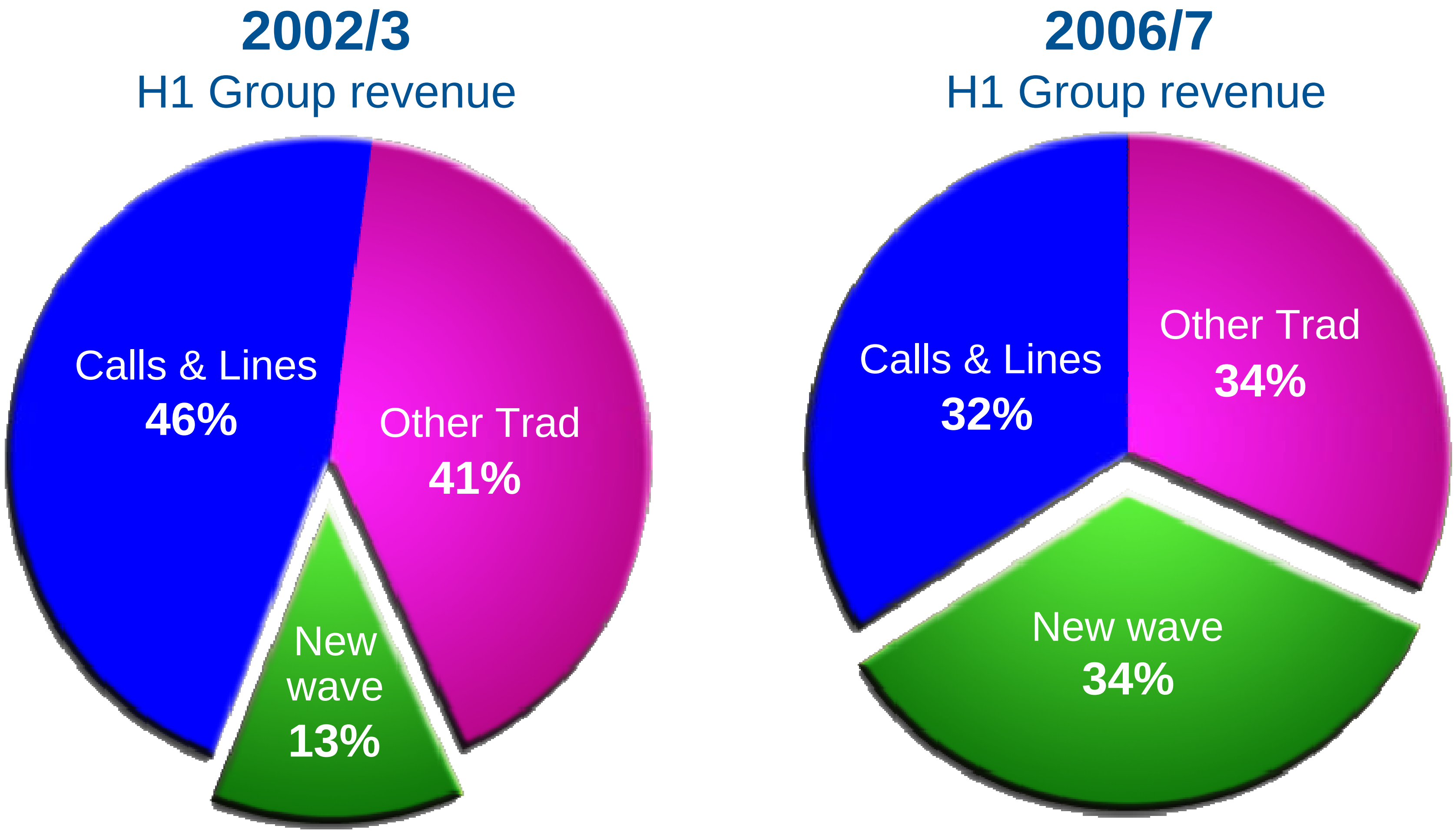
Group revenue	£9.8bn	↑	3%
EBITDA (1)	£2.7bn	↑	2%
Earnings per share (1)	11.3p	↑	19%
Interim dividend	5.1p	↑	19%
Free cash flow	£0.3bn	↓	15%

(1) Before specific items

H1 2006/7 - Group revenue up 3%



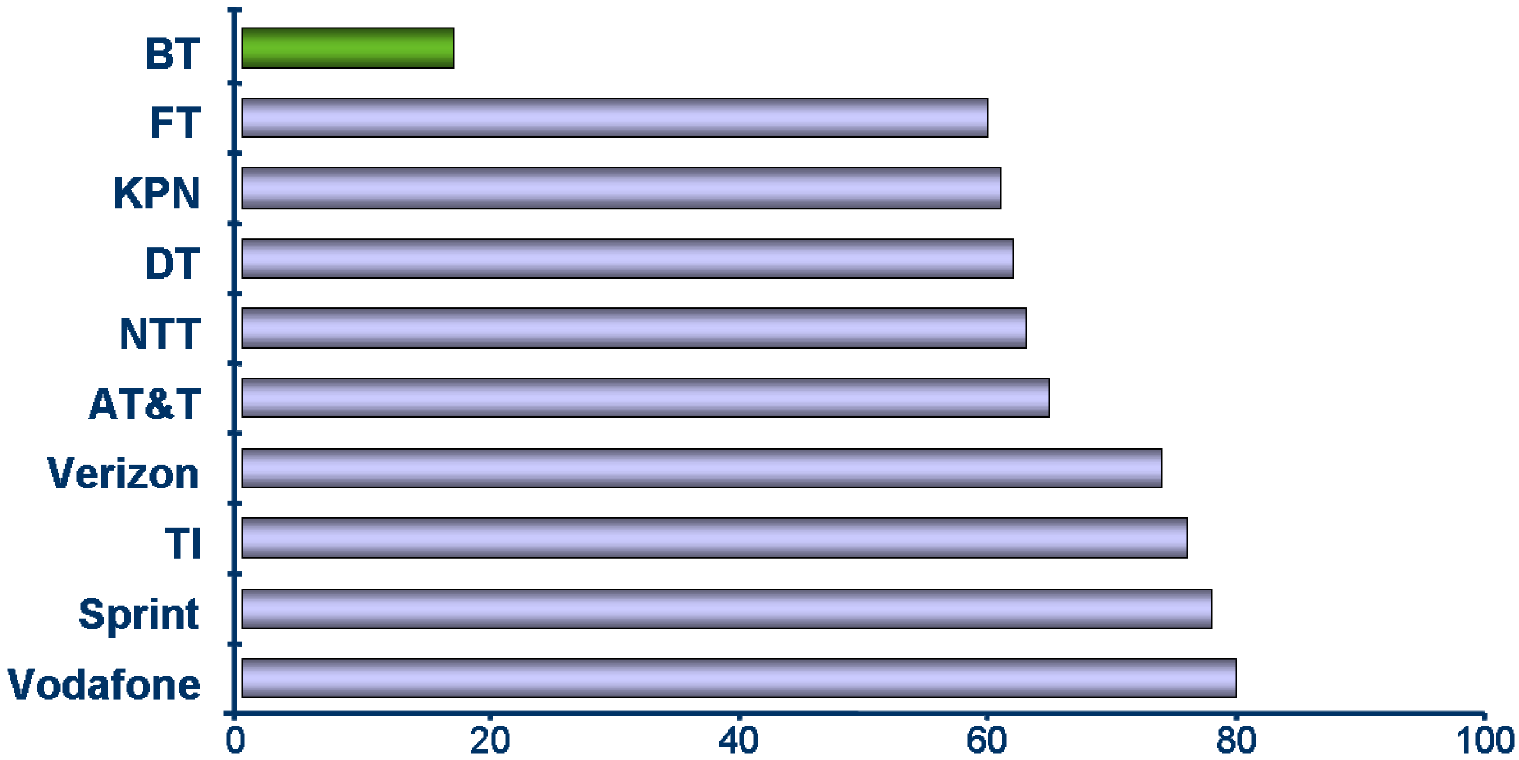
Group Revenue - Transformation of mix



Revenue - Transformation of mix

The Economist

% of revenue derived from voice – Feb 2006



Extract from Economist magazine published Oct 14th, data sourced from Westhall Capital

Balance sheet – Transformation since March 2003

	March 2003		Sept 2006
Net Debt	£9.6bn	→	£8.1bn

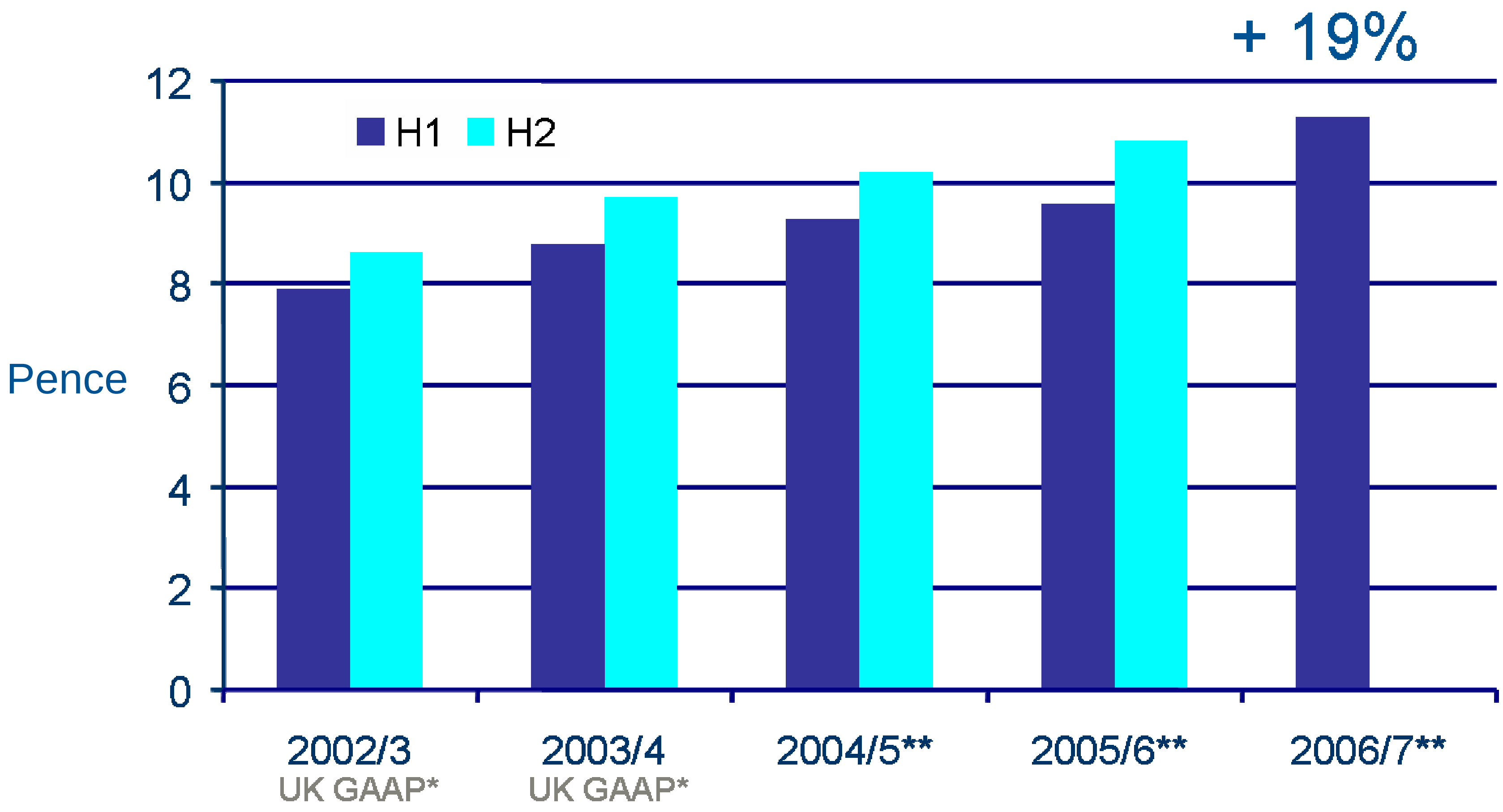
Dividends paid out £3.0bn

Share buy back £0.9bn

	March 2003		Sept 2006
Pension deficit*			
Gross	£9.0bn	→	£2.8bn
Net	£6.3bn	→	£2.0bn

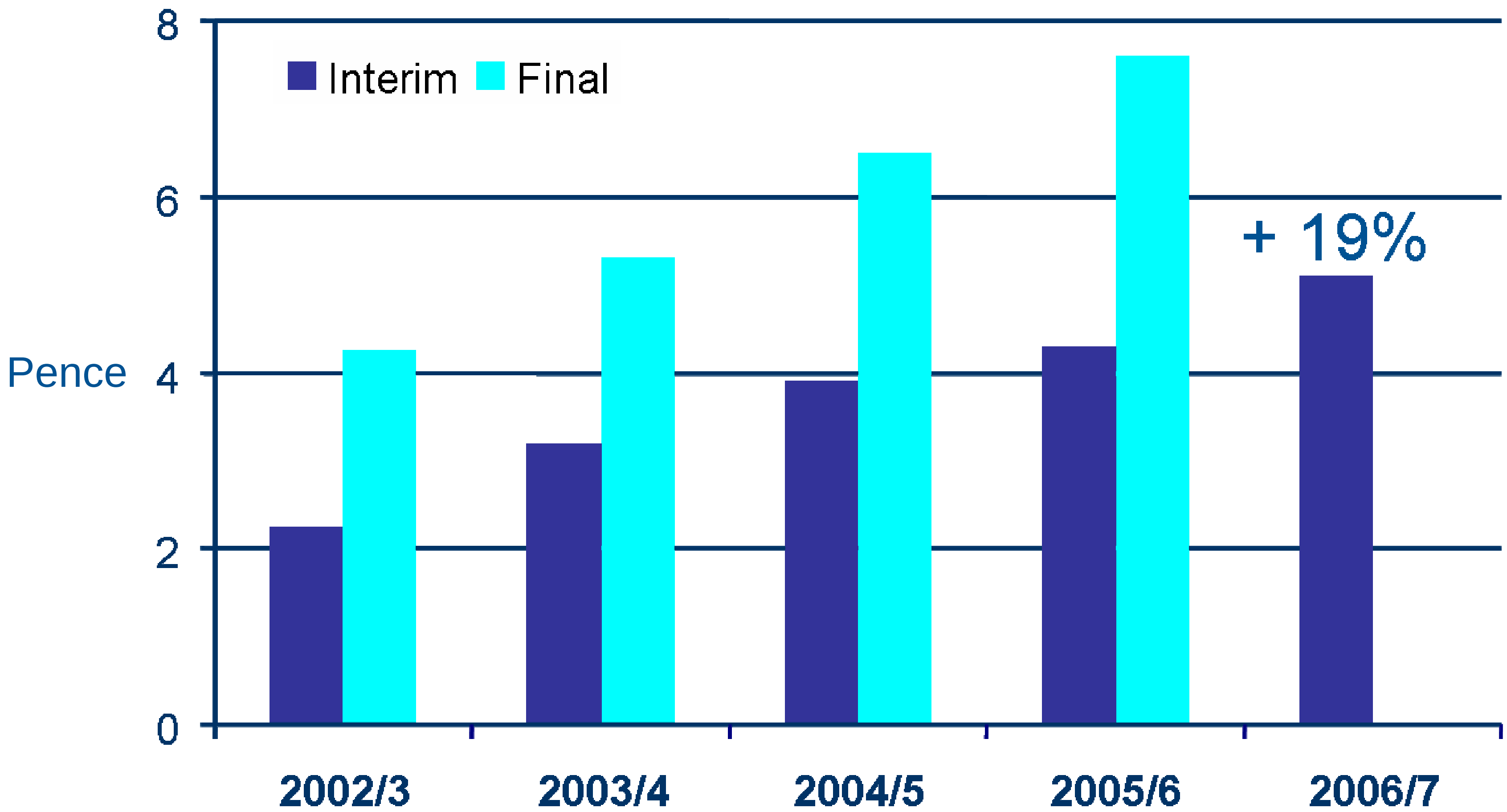
* IAS 19 valuation

Earnings per share - Consistent delivery



* before exceptional items, goodwill and amortisation, from continuing activities
** before specific items

Dividends - Progressive reward



2006/7 interim dividend **5.1p**

BT Group plc

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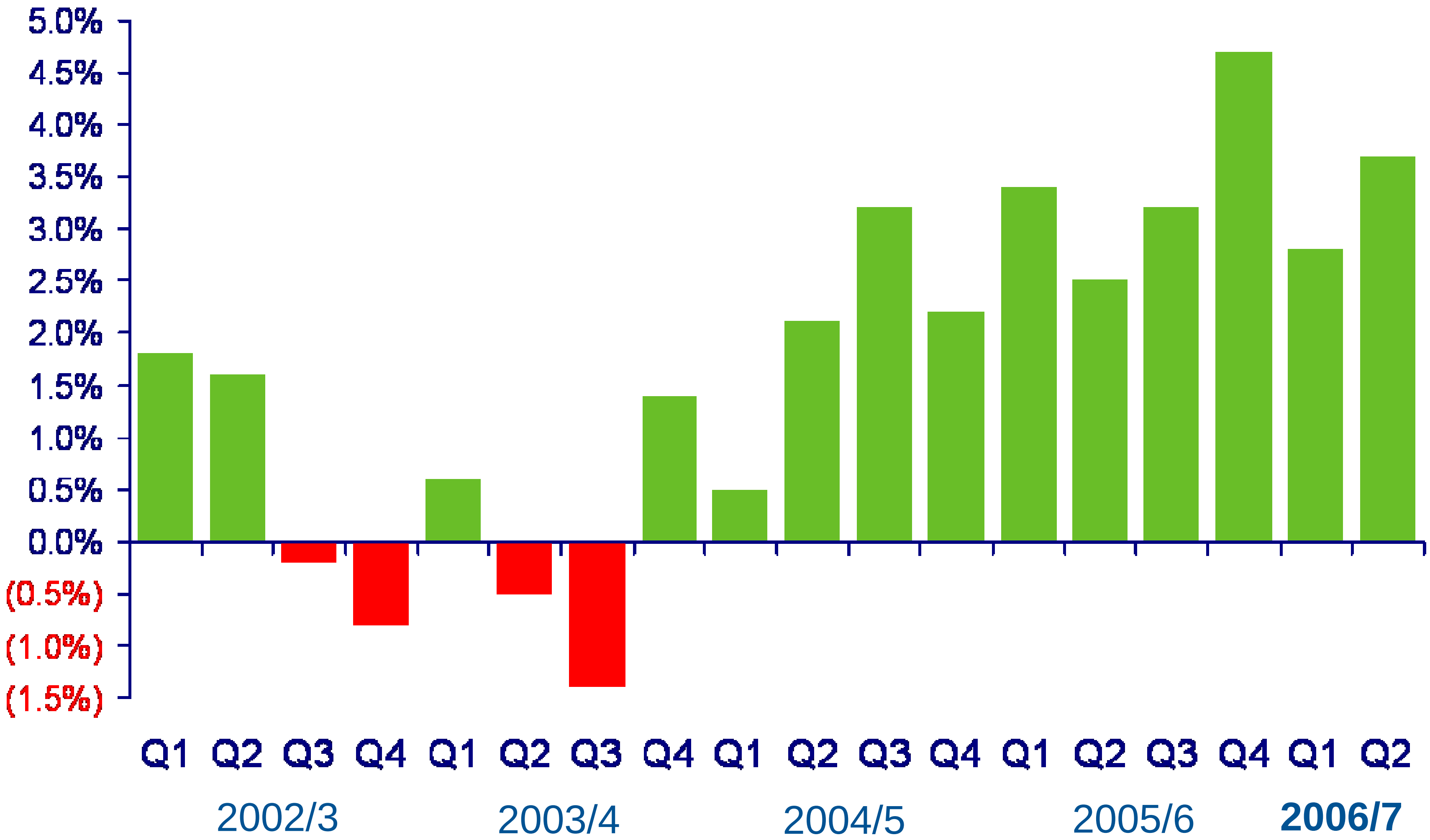
Hanif Lalani – Group Finance Director

Q2 2006/7 - Financial headlines

Group revenue	£4.9bn	↑	4%
EBITDA (1)	£1.4bn	↑	2%
Profit before tax (1)	£0.7bn	↑	12%
Earnings per share (1)	6.0p	↑	13%
Free cash flow	£0.3bn	↓	33%

(1) Before specific items and leavers

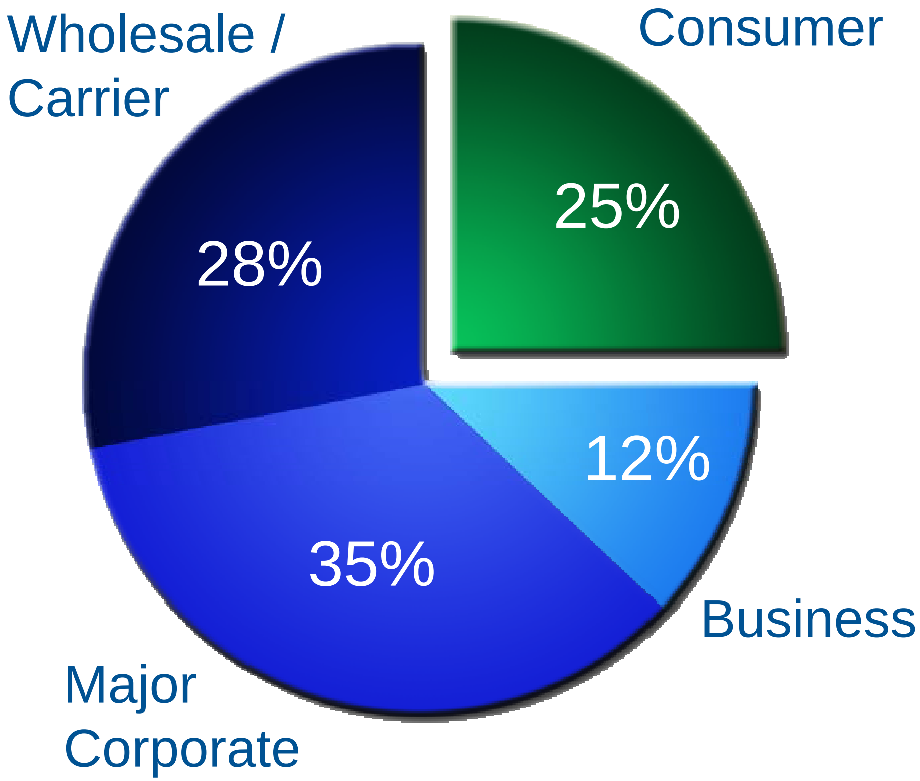
Group Revenue - Continued growth



* 2002/3 growth is adjusted to take account of Concert unwind
* 2004/5 and 2005/6 excludes impact of mobile termination and revenues from Albacom and Infonet

Changing mix - Q2 segmental analysis

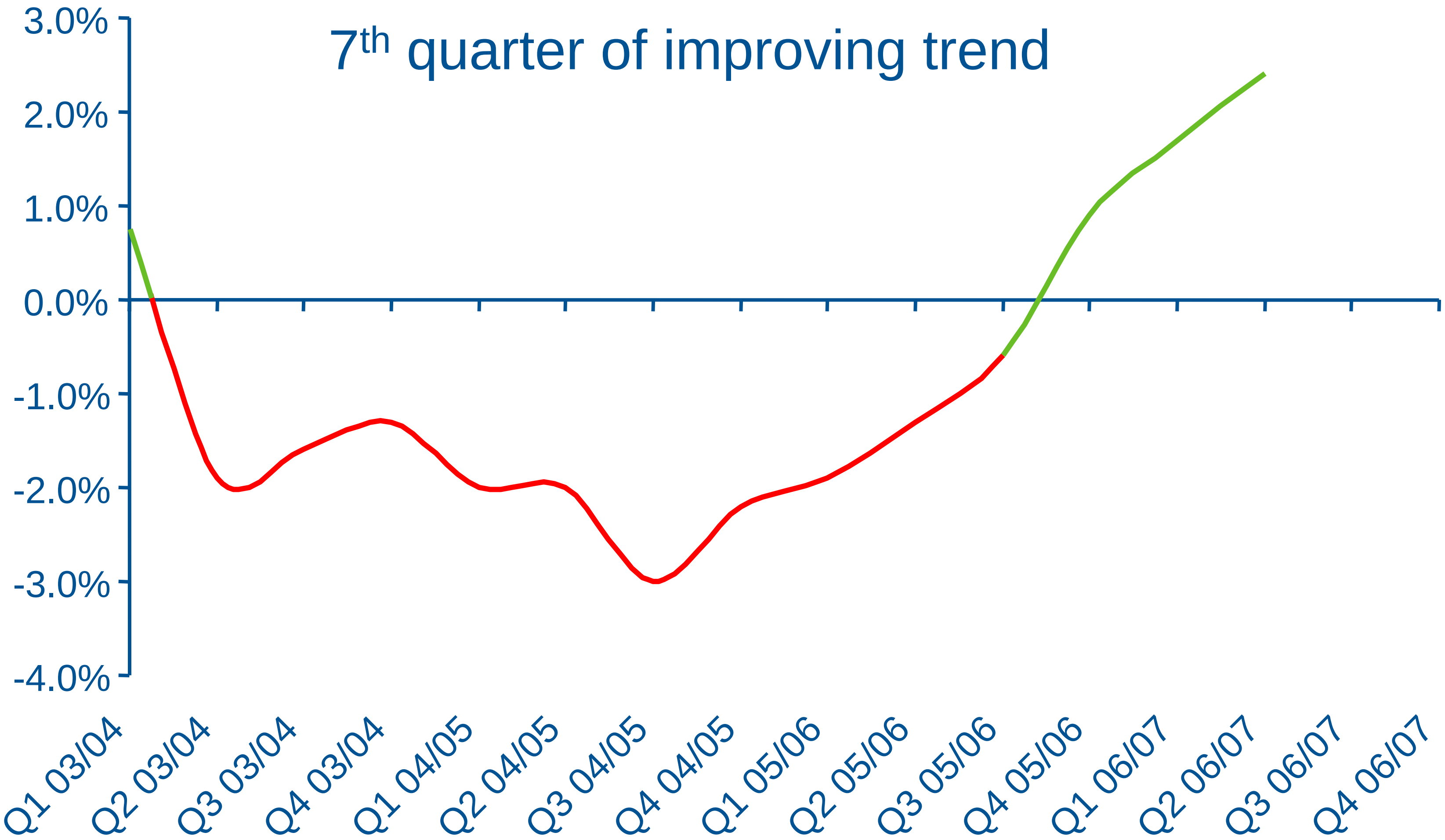
Group Revenue



New Wave proportion

	2006/7	2005/6
Consumer	17%	11%
Business	28%	23%
Major Corporate	60%	56%
Wholesale/Carrier	24%	20%
TOTAL	**35%**	**30%**

EBITDA*



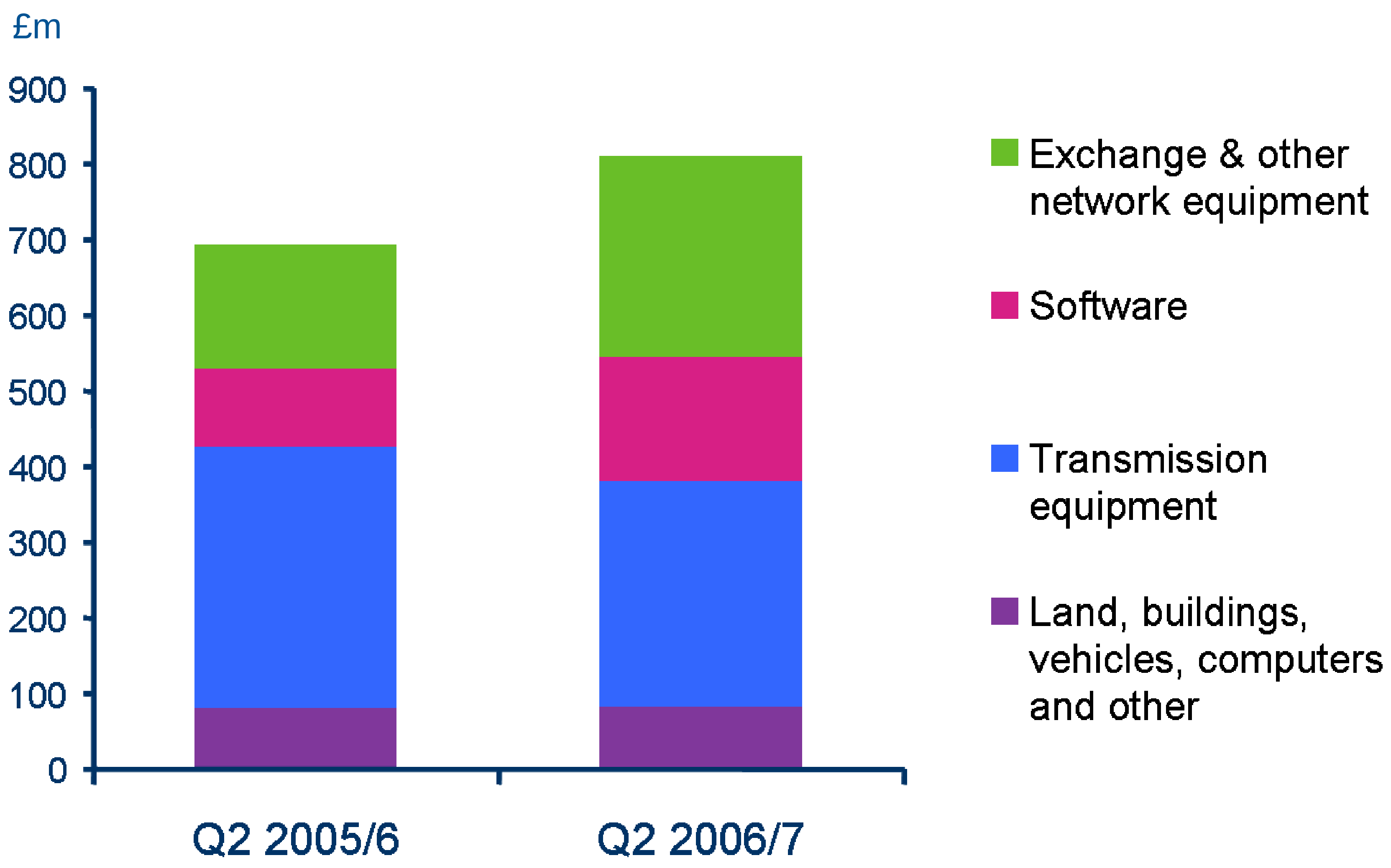
* Before exceptionals / specific items, leaver costs and sale of property in Q2 2004/5

Q2 2006/7 - Group P&L

	Q2 2006/7 £m	**Q2** 2005/6 £m	Better / (Worse) £m
Revenue	**4,941**	**4,767**	**174**
EBITDA (pre leavers**)**	**1,418**	**1,385**	**33**
Depreciation & amortisation	(703)	(692)	(11)
Operating profit (pre leavers**)**	**715**	**693**	**22**
Operating margin	*14.5%*	*14.5%*	
Leaver costs	(33)	(37)	4
Associates	5	3	2
Finance costs (net)	(55)	(100)	45
Profit before tax	**632**	**559**	**73**
Tax	(155)	(139)	(16)
Profit for the period	**477**	**420**	**57**

* All numbers are before specific items

Q2 2006/7 - Capital expenditure



Q2 2006/7 - Free cash flow

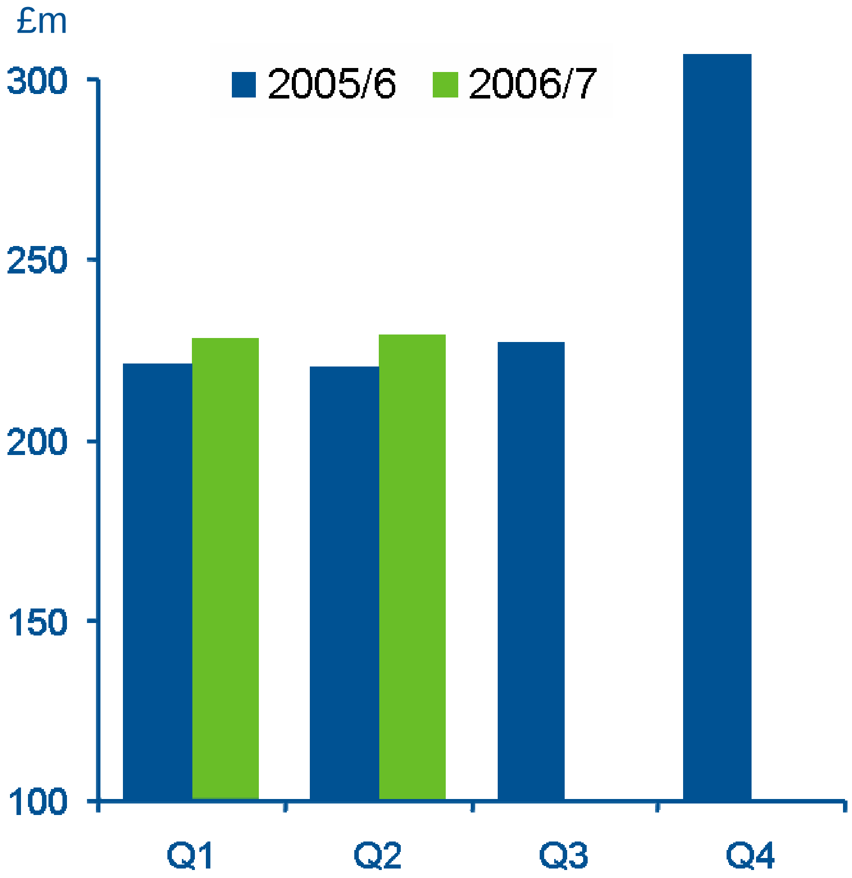
	Q2 2006/7 £m	**Q2** 2005/6 £m	Better / (Worse) £m
EBITDA* (post leavers)	1,385	1,348	37
Interest (net)	(61)	(88)	27
Tax paid	(90)	(111)	21
Capex	(794)	(671)	(123)
Working capital and other	(102)	25	(127)
Free cash flow	**338**	**503**	**(165)**
Net debt	8,079	8,133	54

* Before specific items

Q2 2006/7 - BT Global Services

- Revenue £2.2bn up 3%
  - UK traditional down 8%
  - GS new wave up 6%
- Gross profit £638m up 4%
- SG&A* up 4%
- EBITDA* £229m up 4%
- Operating profit* £72m up 16%

EBITDA*

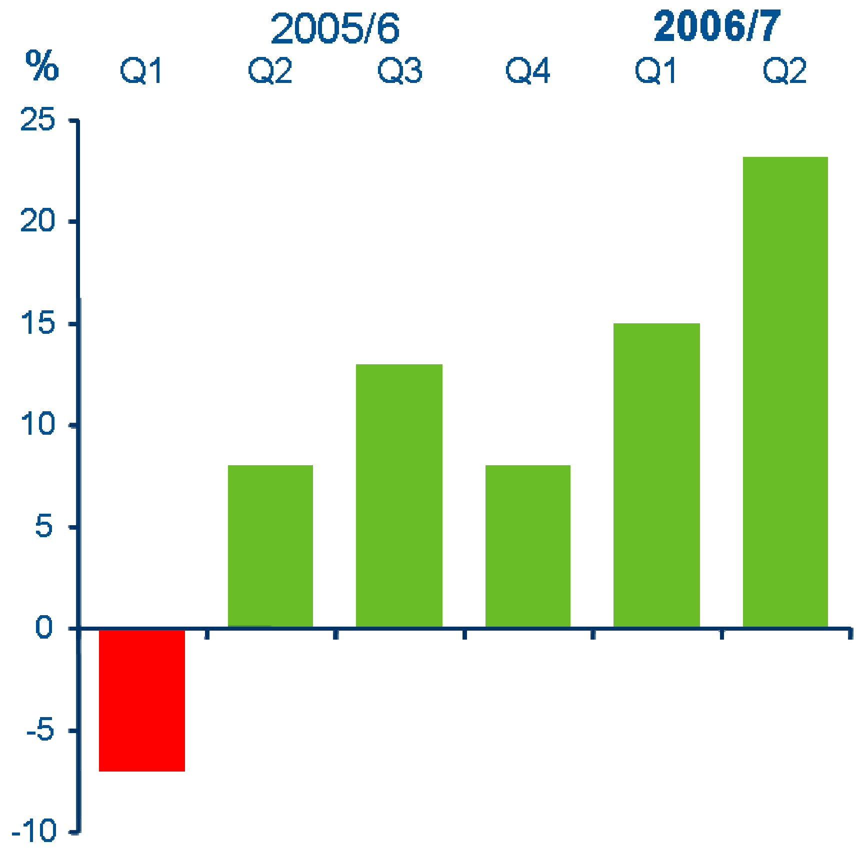


* Before leavers

Q2 2006/7 - BT Retail

- Revenue £2.1bn down 3%
  - Traditional down 9%
  - New wave up 34%
- Gross profit up 7%
  - Margin improved by 2.5 percentage points
- SG&A* down 2%
- EBITDA* £235m up 23%
- Operating profit* £196m up 29%

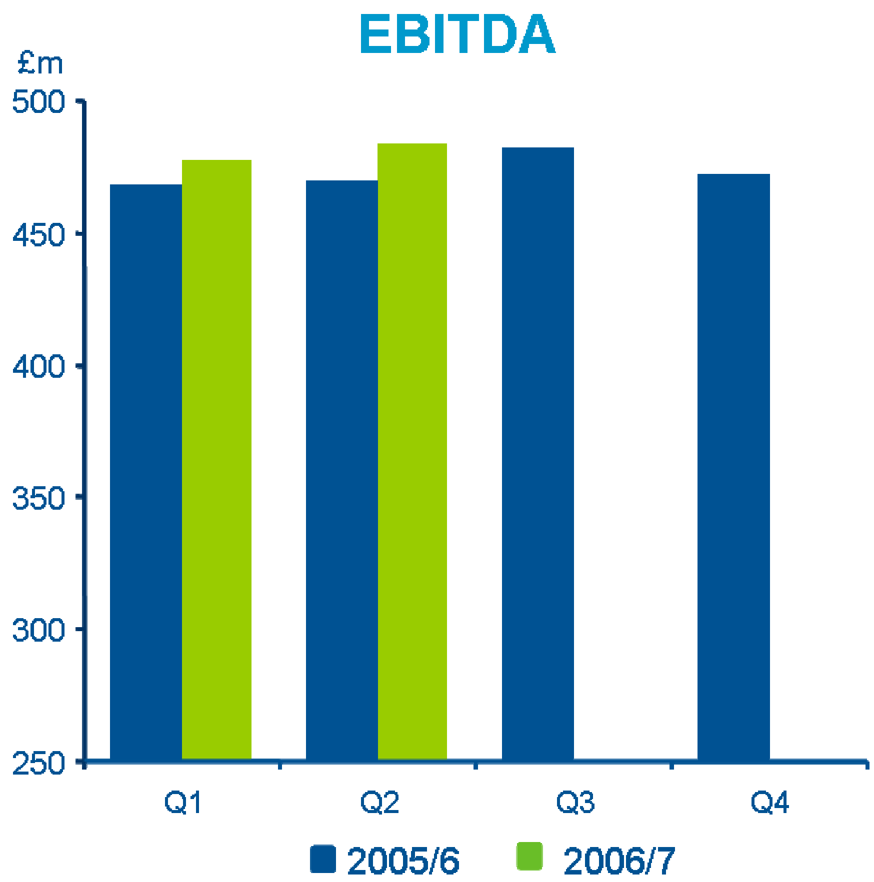
EBITDA growth



* Before leavers

Q2 2006/7 - BT Wholesale

- Revenue £1.9bn up 4%
  - External £1.0bn up 7%
  - Internal £855m up 1%
- Gross variable profit up 1%
- Network and SG&A* down 1%
- EBITDA* £484m up 3%
- Operating profit* down 2% at £193m



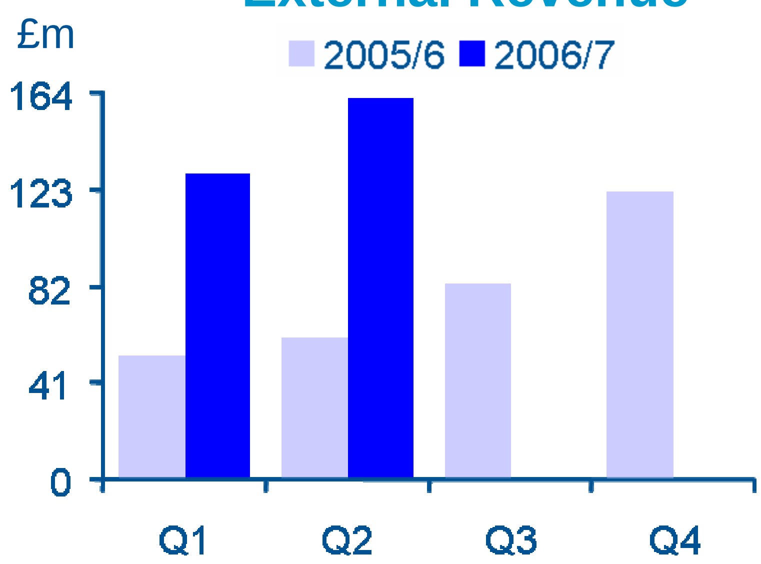
* Before leavers

Q2 2006/7 - openreach

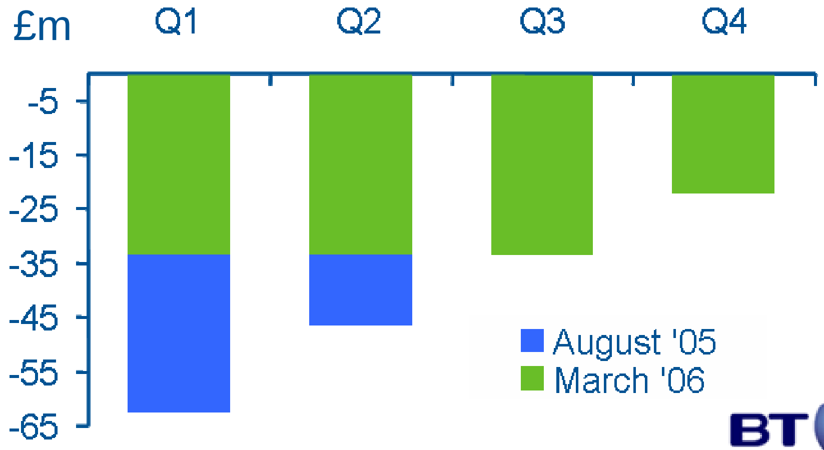
a BT Group business

- Revenue £1.3bn up 1%
  - External up 170%
  - Internal down 8%
- Operating costs 4% higher
- EBITDA* £460m, down 5%
- Operating profit £282m, down 4%

External Revenue



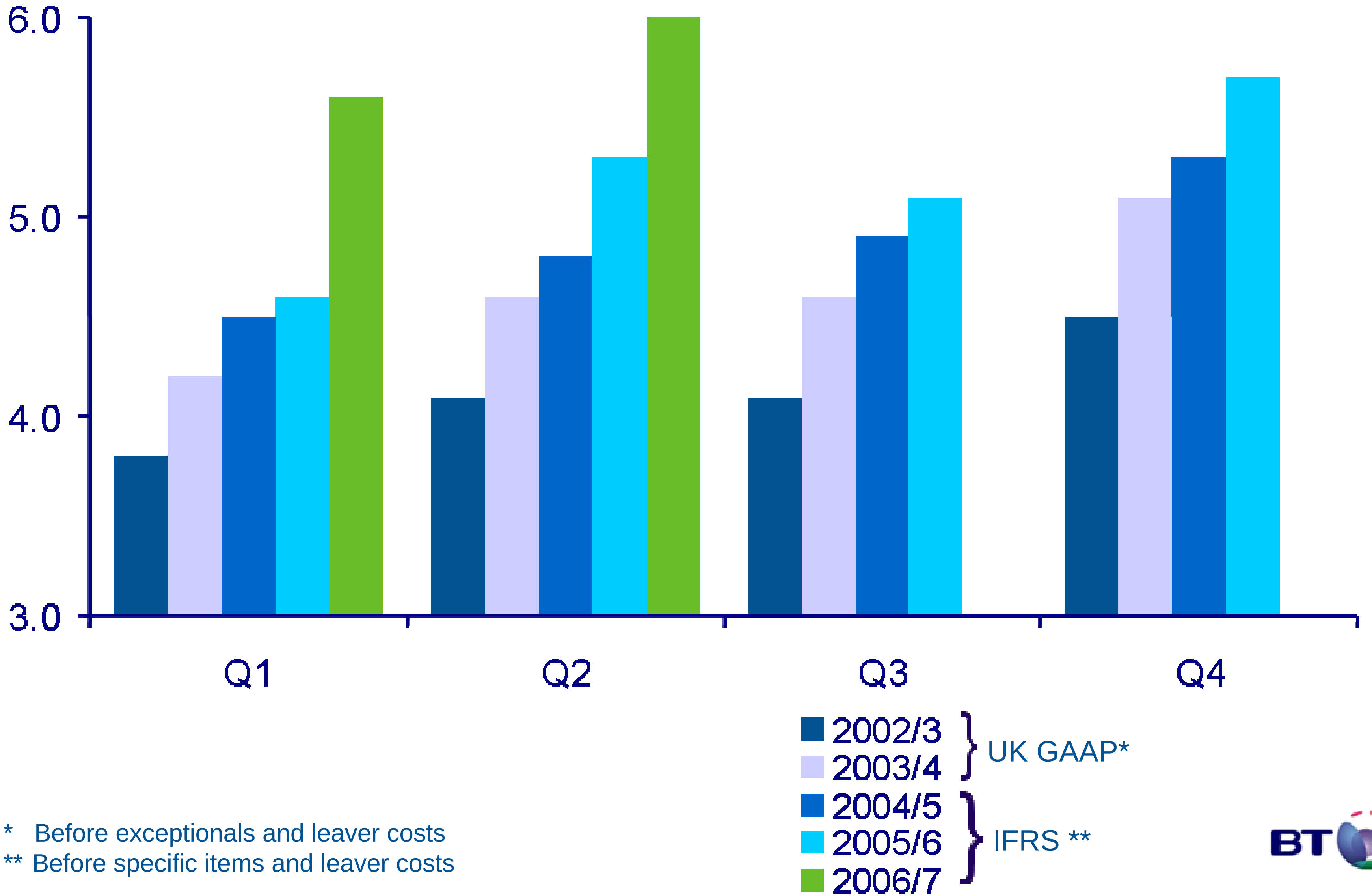
2006/7 impact of WLR price cuts



* Before leavers

Earnings per share* - 18th quarter of growth

pence



*   Before exceptionals and leaver costs
** Before specific items and leaver costs

BT Group plc

Q2 results 2006/7

Ben Verwaayen - CEO

BT Group strategy

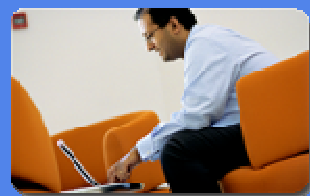
Long term Partnership with our customers

Defend traditional

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

Grow new wave

- Networked IT services
- Broadband
- Mobility



21st Century Network

... Consistent delivery

BT Group strategy

<u>Defend traditional</u>

BT Together

BT Business Plan

Proactive migration

Cost reduction

Long term Partnership with our customers

Contracted spend
Long term contracts
Strategic partnerships

<u>Grow new wave</u>

Networked IT services orders c.£19bn in last three years

Over 9m broadband connections

BT Fusion wifi

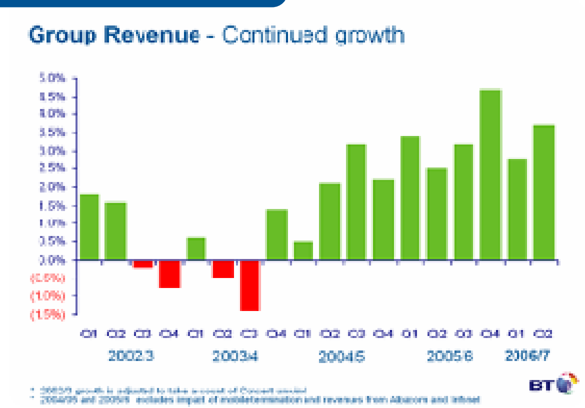
21st Century Network

Core network rollout
Cardiff deployment
switched-on

... it's all happening right now

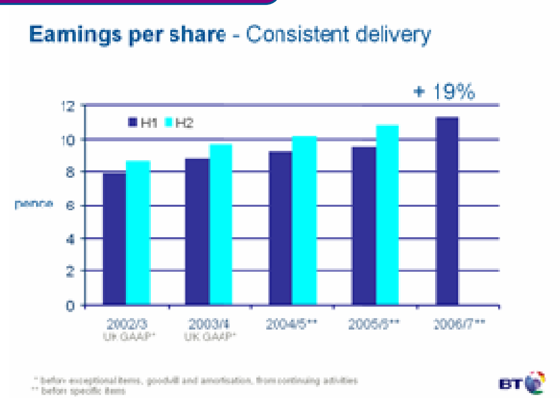
BT Group strategy - Positive results

Revenue

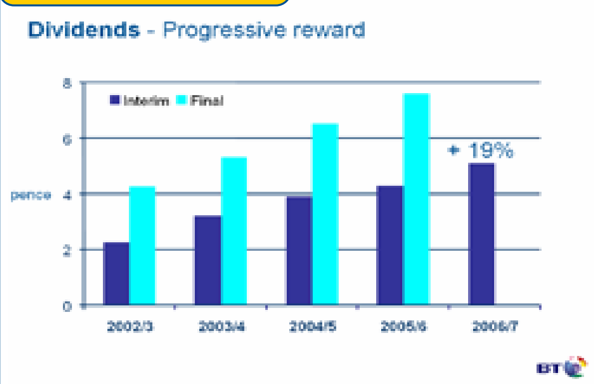


EBITDA

EPS



Dividends



BT Group strategy – Our quad play

Global Services

Delivering network centric added value solutions to multi-site corporates worldwide

Retail

Delivering innovative and high value services to its customers nationwide

Wholesale

Delivering ubiquitous network based services and solutions to the entire UK telecoms industry

Openreach

Delivering local access services on a equivalent basis nationally

Global Services is on track to deliver further growth

Financials

- Networked IT services up 10%
- EBITDA* margin rose to 10.6%
- Operating profit* up 16%

Recognised leader

- Leading pan European network provider *(Gartner)*
- Acquired leading network security provider, Counterpane

Unique proposition

- Global reach
  IP network in 128 countries
- Network centricity
  6 levels of service
- Partnership approach

The Future

- Global growth
  > 40% of orders in Q2
- Cost savings, £400m over 3 yrs
- 15% EBITDA margin

* Before leavers

BT Global Services - Growing with our customers

223 new customer accounts won in Q2

BT Global Services - Winning proposition

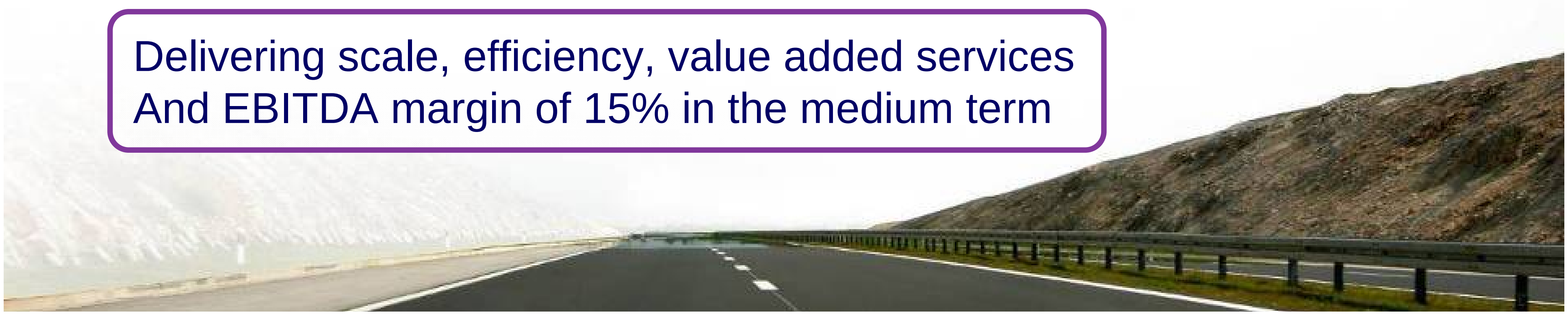
Q2 orders worth **£1.6bn**

And in Q3

BT Global Services - Road map to 15% margin

- Continued market success
  - Selling value added services in the UK
  - Driving market share globally
- Creation of a new breed of services organisation
  - Increasing repeatable solutions
  - Value add selling based on growing track record and reputation
- Radical cost reduction
  - £400m+ within three years
- Maturing contracts
  - Increased proportion at profit recognition stage

Delivering scale, efficiency, value added services
And EBITDA margin of 15% in the medium term



Retail will continue to grow profit

Financials

- New wave 21% of revenue
- Gross margin improved
- SG&A reducing

Continued innovation

- BT Podshow
- BT Broadband Talk
- BT Home and Office hubs

Diverse businesses

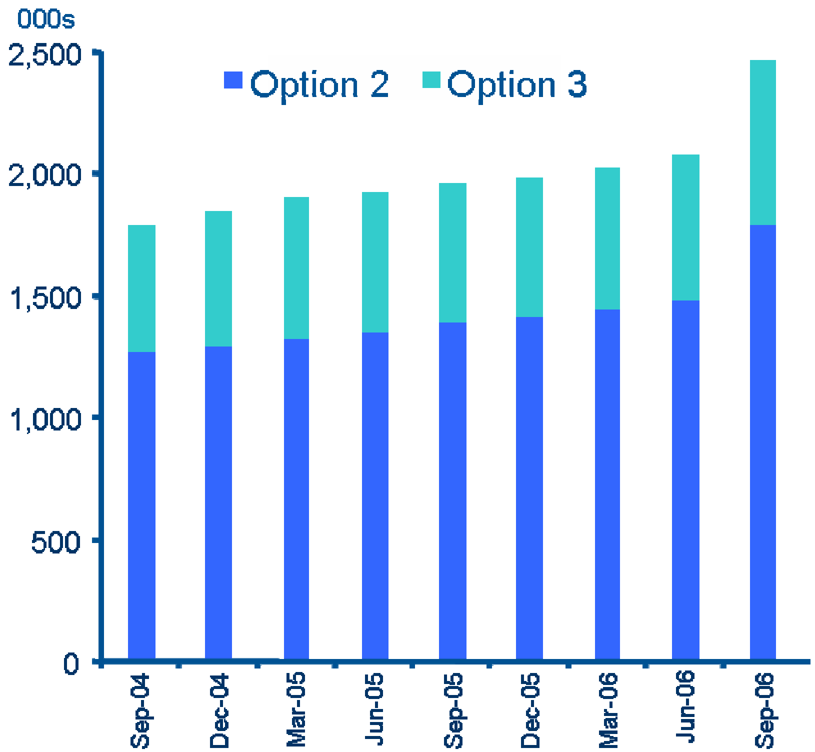
- Consumer
- Business
- Enterprises
- Ireland

The future

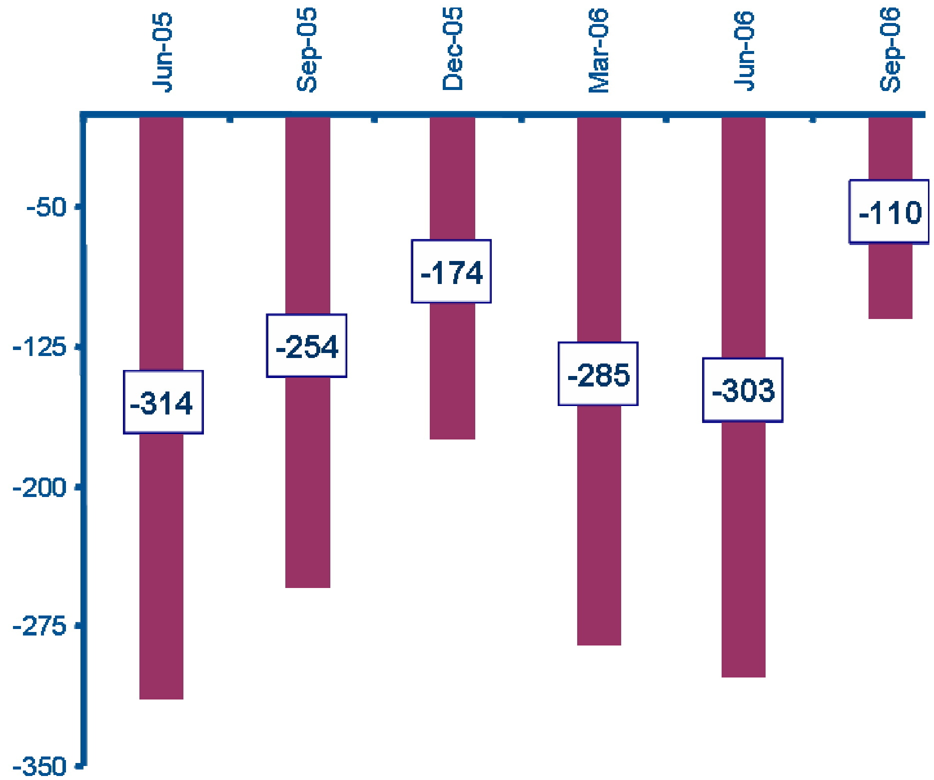
- Homesafe
- BT Vision
- BT Fusion WiFi
- WiFi cities

Consumer – Defend traditional

- BT Together
  - Option 2 & 3
    - 390k net adds

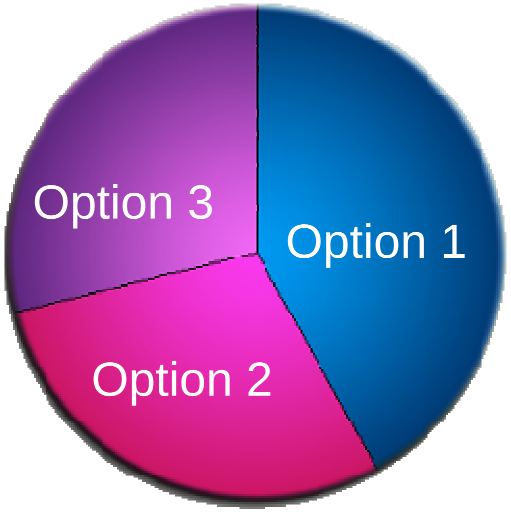


- Active customer losses
  - Lowest for over 3 years



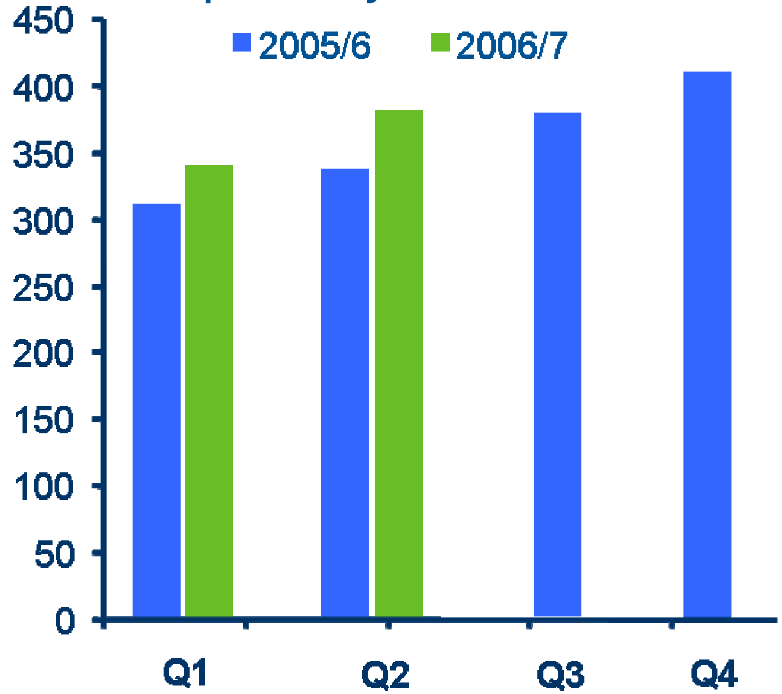
Consumer - Grow new wave

- Total Broadband
  - ➢25% of net adds in Q2



- Nearly 60% take Option 2 or 3

BT Retail Broadband
quarterly Gross orders



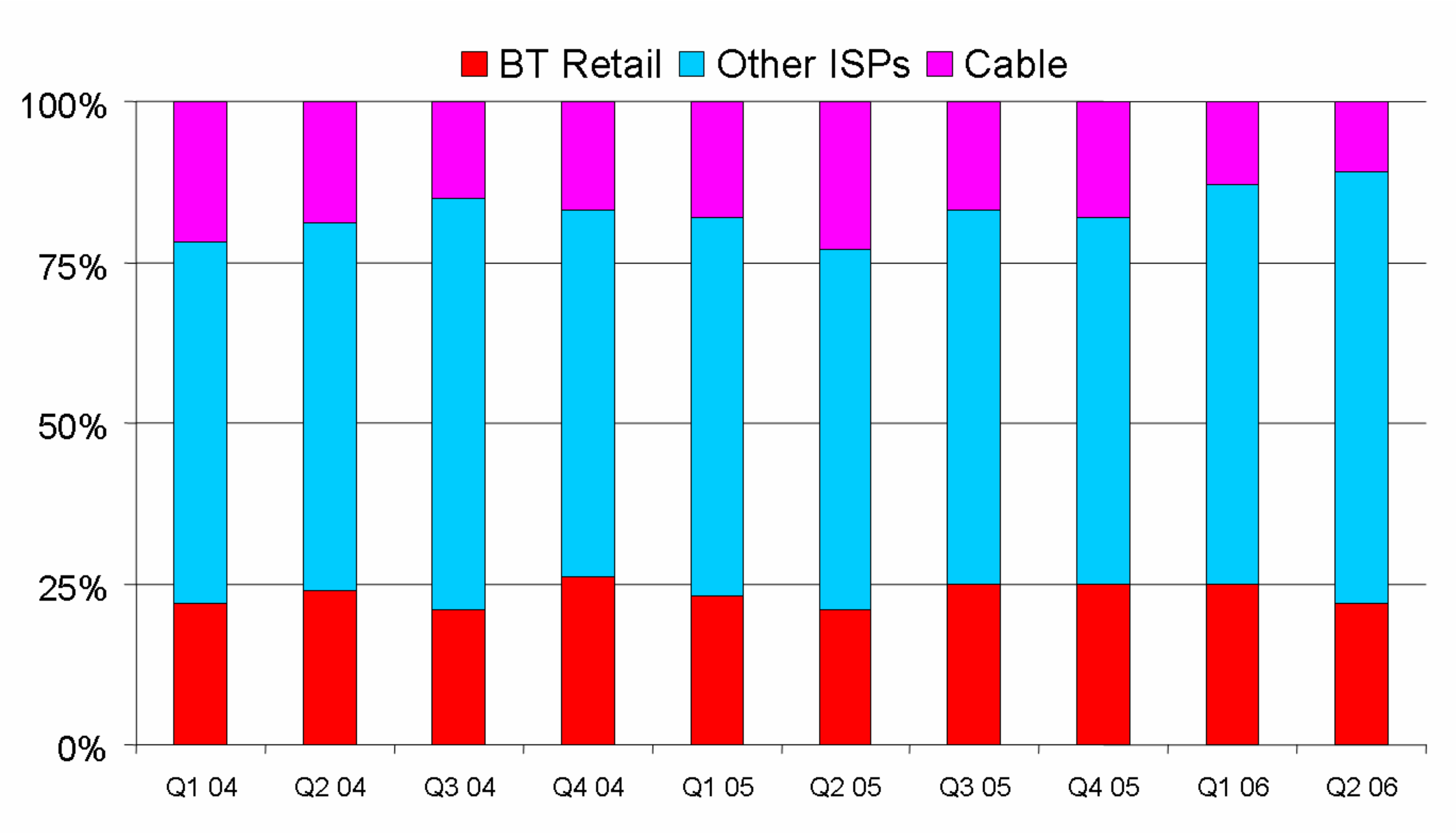
Consumer ARPU* £254 up £1
- 69% contracted

Installed base now >3m
- 32% of DSL + LLU

* Rolling 12 months

Broadband in the UK

Market share of net adds *including cable*



* Based on published data for 30 September 2006

Business - Defend and grow

- Traditional
  - BT Business Plan
    - Continued growth, covers ~60% of calls revenue
    - Enhanced Service levels, launch of BT Assurance Plus

- New wave
  - Broadband
    - 28% YoY growth
    - No 1 ISP, 46% share
    - 40% of new customers contracted for 2 years
    - Value Added Services attachment >90% in last 12 months
  - Launch of IT Manager

    Pick and mix package for hardware, software, support and service

Enterprises - Diverse opportunities

The Phone Book

- Revenues up > 20%

BT Conferencing

- Revenues up 29%
  - Single global platform

redcare

Security & Telemetry services

- Revenues up 5%
  - Launched “Digital Storage” service for CCTV

BT Payphones

- Operating cost cut 20%

BT Expedite

Provides retailing solutions

- 11 new contracts won in Q2
  - including JJB Sports & Clarkes

dabs.com

Web based channel

- Revenues up 25%
  - Early success in combining propositions

VT –

Value added services to business customers

Enterprises - Diverse opportunities

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– Revenues up 25%
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Wholesale - growing in an LLU world

Financials

- External revenue up 7%
- New wave 26% of revenue
- EBITDA* up 3%

Innovation

- BT Movio
- DSL Max
- Consult 21

Service provider

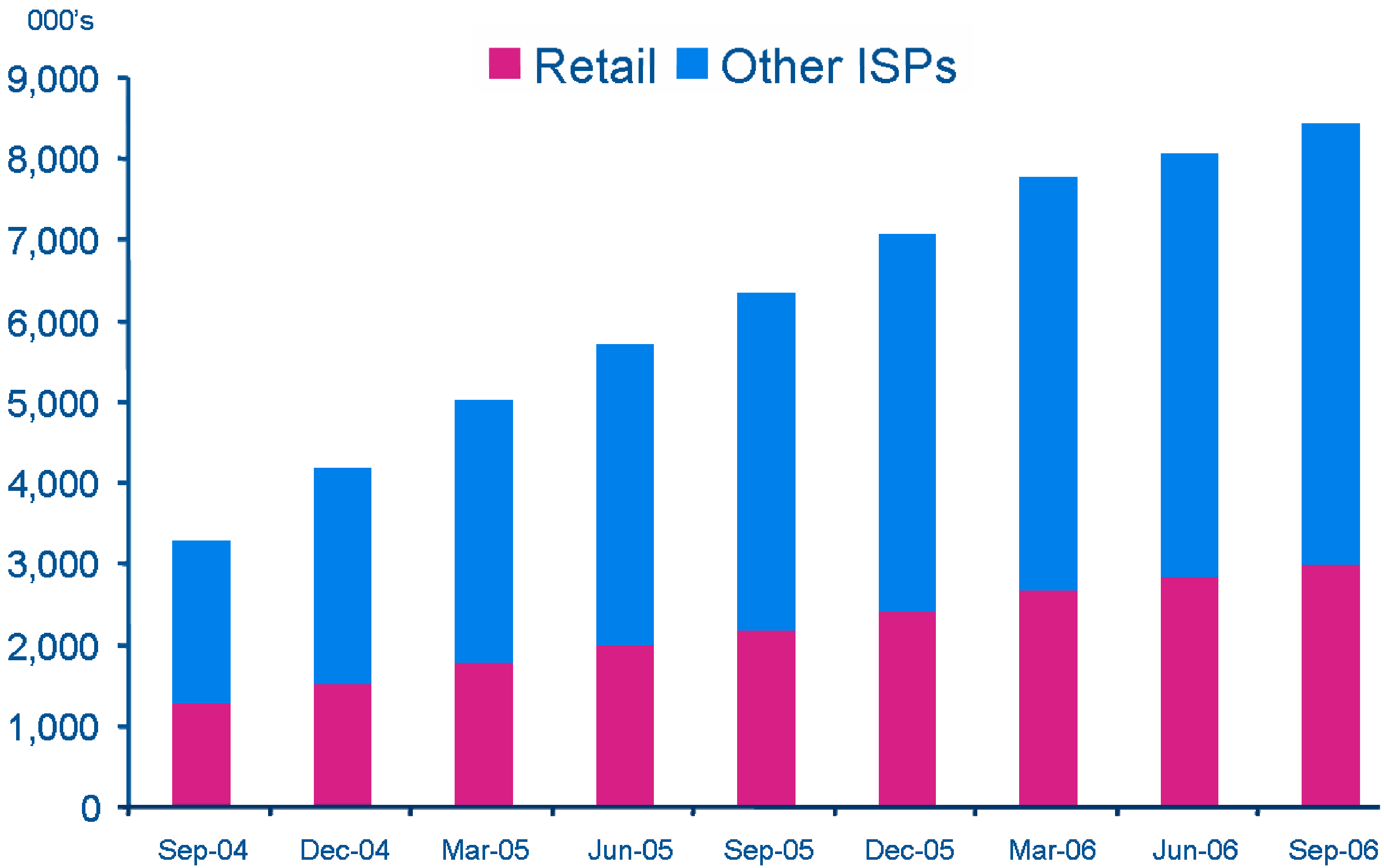
- Managed broadband
- Managed networks
- Convergent solutions

The future

- Broadband pricing
- ADSL2+ rollout
- 21C services

* Before leavers

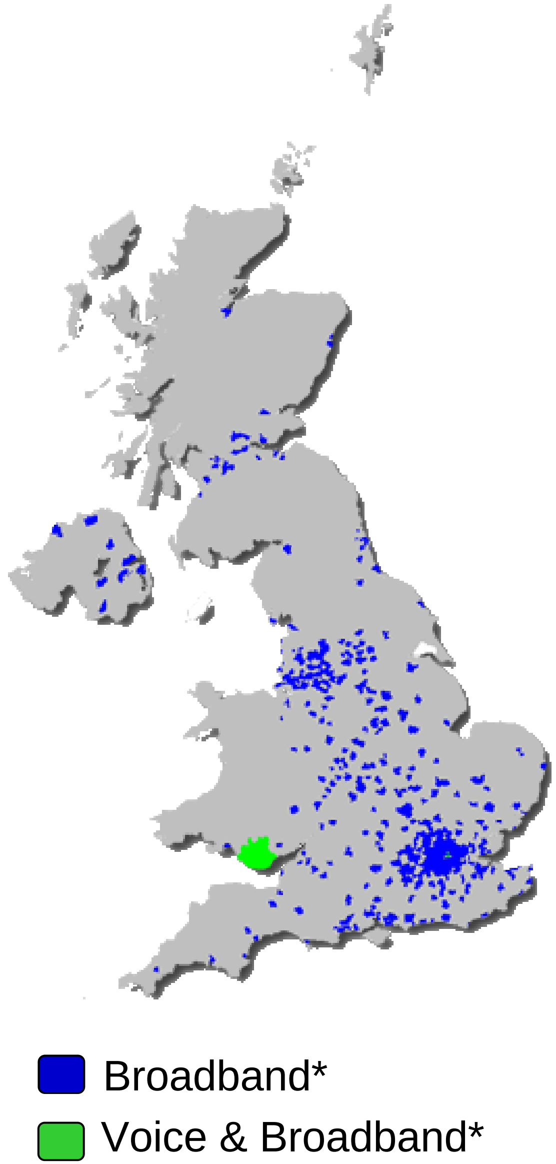
BT Wholesale - DSL growth continues*



*** excludes LLU**

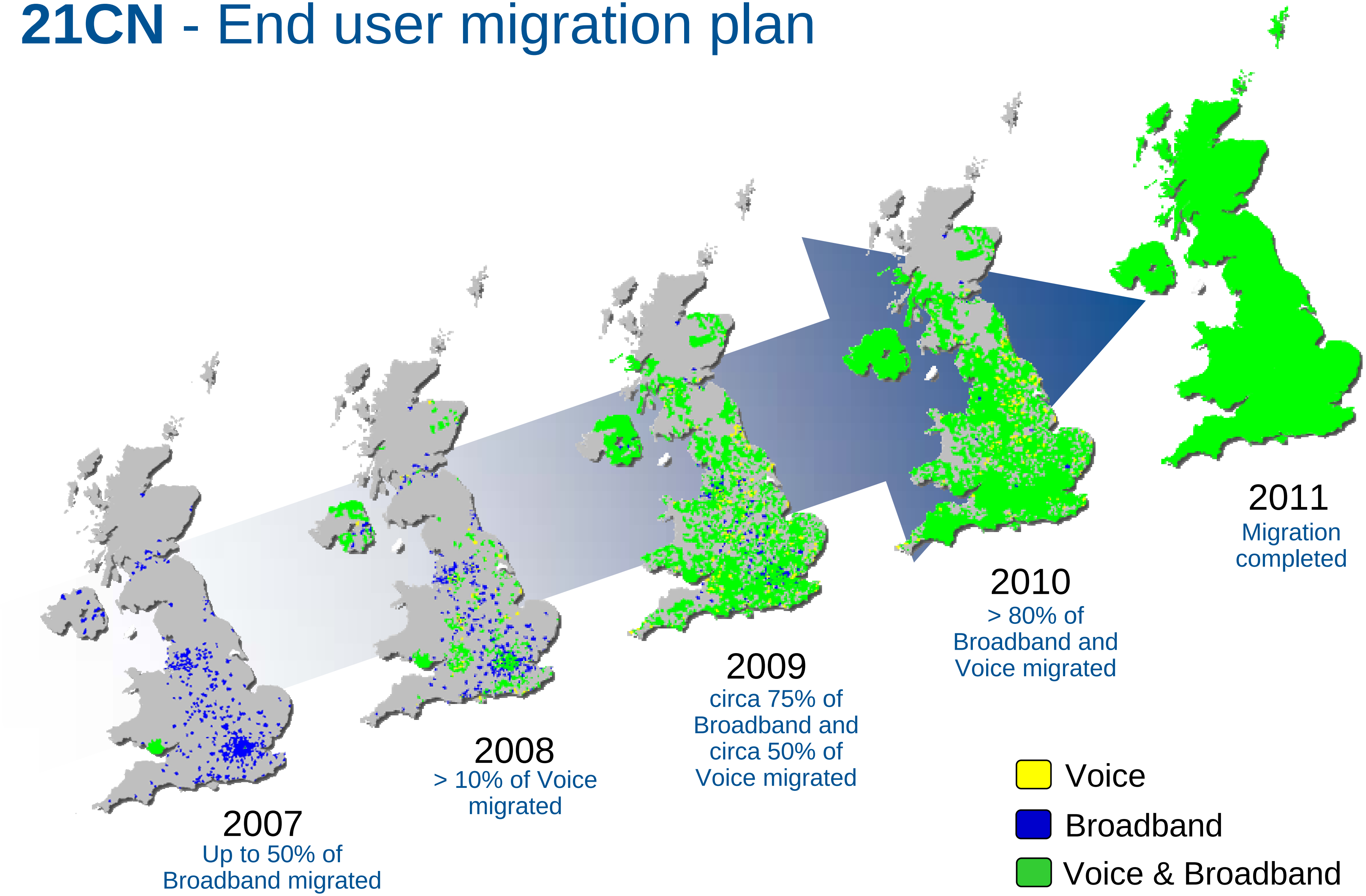
BT Wholesale - 21CN

- This quarter
  - c10% of 21CN Core Network completed
  - c100 sites across the country prepared and ready for 21CN
  - Over 75 million trial voice calls have been carried to date
- New Services
  - Carrier class IP Voice
  - Next Generation Broadband (up to 24M/bps)
  - New Generation of Ethernet services
  - Converged IP-based services
- New Capabilities
  - Faster product development
  - Enhanced customer experience
  - Greater customer self service
  - Greater network intelligence



* Service delivered using 21CN capabilities

21CN - End user migration plan



* Service delivered using 21CN capabilities

Openreach – regulated returns

Financials
- External revenue up 170%
- Increasing activity volumes
- Capex up 13% to £279m

Unique approach
- Focused regulation
- Regulated asset base c.£11bn
- Facilitates market growth

Challenges
- System and processes
- Equivalence
- Service assurance & delivery

The future
- Deliver our undertakings
- Regulated returns
- Improving efficiencies

Meeting our undertakings

263 undertakings

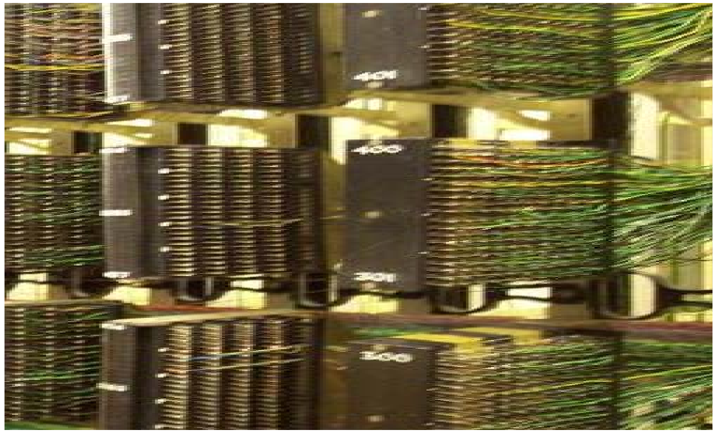
- Successfully meeting 146* ongoing obligations
- There are 117 specific deliverables.
  - 87* are now complete and 30 still in progress

* Subject to EAB validation

openreach - Service performance

What has changed:

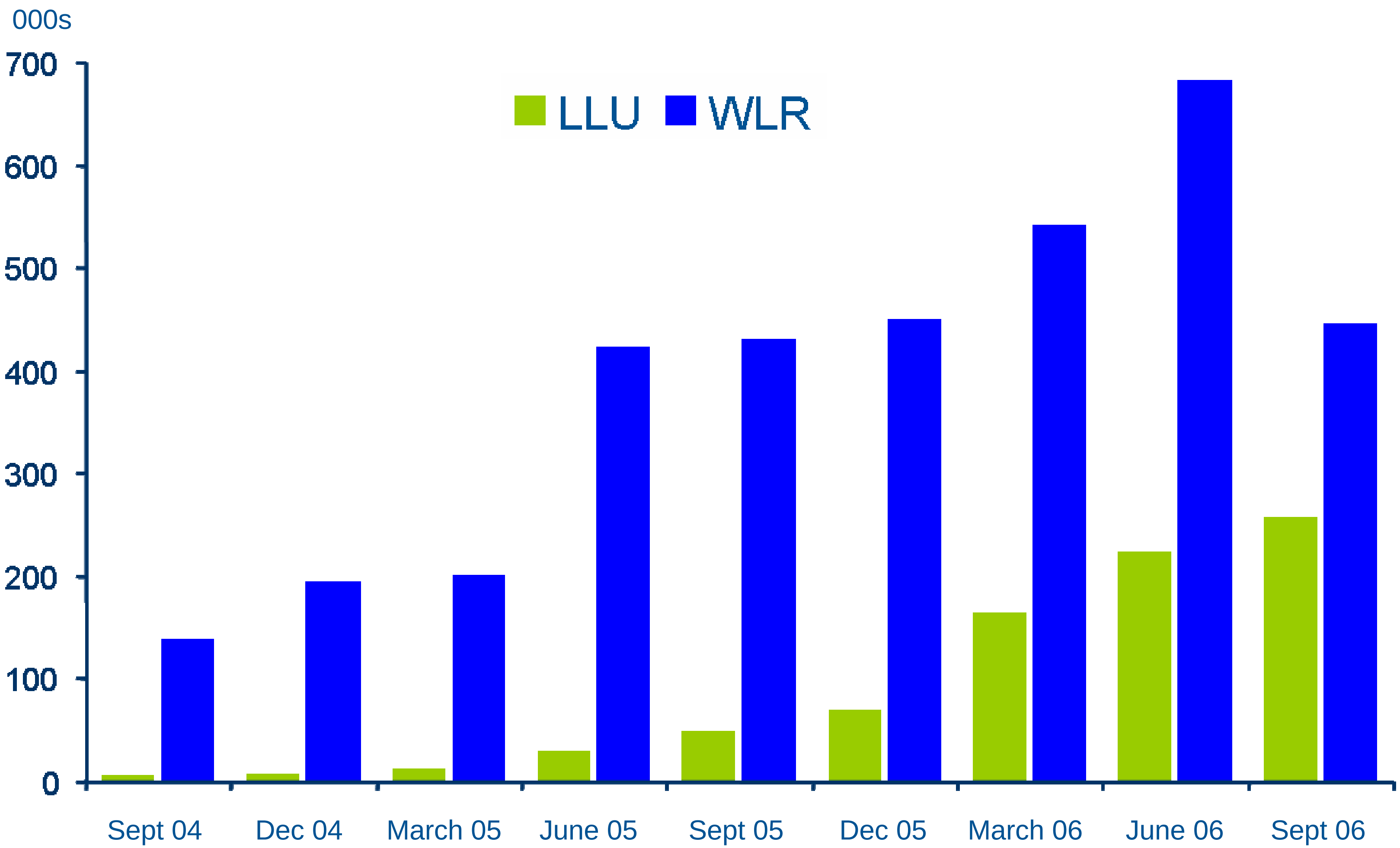
- Rapid changes in the market have created a step change in the mix of work at our main distribution frames
    - ➢ more complexity
    - ➢ more volatility



We are:

- Increasing the capacity and flexibility of our engineering workforce.
- Managing fluctuations in demand
- Ensuring quality of workmanship – right first time
- Re-engineering key processes to make a step change in speed
- Embedding customer connected work practices

openreach - Product net additions



over ONE million lines now unbundled

Continuing momentum

Global Services

- Towards 15% EBITDA margin
  - Global growth
  - Maturing IT service contracts
  - Cost efficiencies

Retail

- Continued EBITDA growth
  - Margin management
  - Value based propositions
  - Cost efficiencies

Wholesale

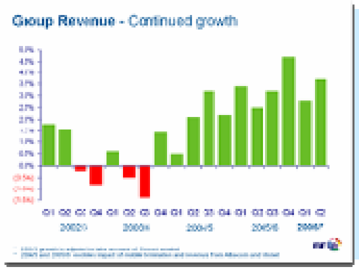
- 21CN deployment
  - Faster to market
  - Managed services
  - Cost efficiencies

Openreach

- Deliver industry wide equivalence
  - System and process improvements
  - Cost efficiencies

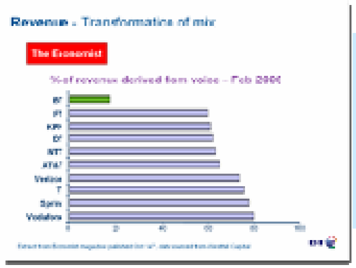
Bringing it all Together

Strategy built around convergence & innovation



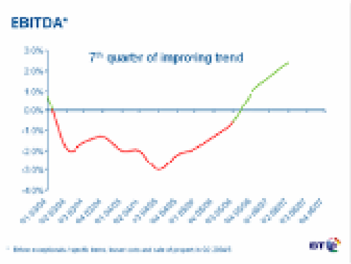
Strong momentum with track record of delivery

- ***Eighteen*** quarters of **EPS** growth
- ***Eleven*** quarters of **revenue** growth
- ***Seven*** quarters of improvement in **EBITDA** trend



Consistently successful in competitive and dynamic markets

- New wave has reduced reliance on voice



On track to deliver growth in revenue, EBITDA, EPS and dividends this financial year.

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