Bringing it all **T**ogether

Q3 results 2006/7

8th February 2007

Ben Verwaayen - CEO

Q3 results 2006/7

Forward-looking statements – Caution

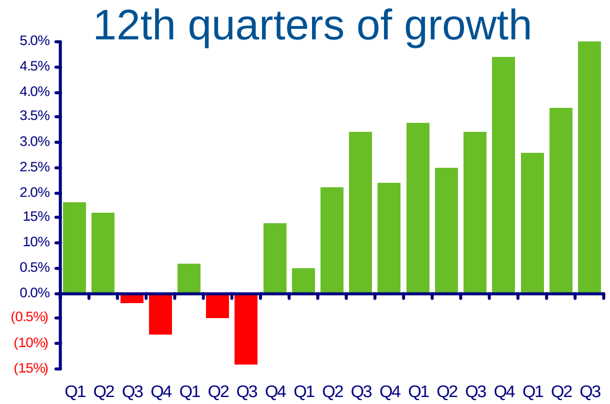
Certain statements in this presentation are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: continuing growth in revenue, EBITDA, earnings per share and dividends; growth in new wave revenue, mainly from networked IT services and broadband; growth in non-UK business; 21CN deployment; EBITDA margin; and cost control and 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.

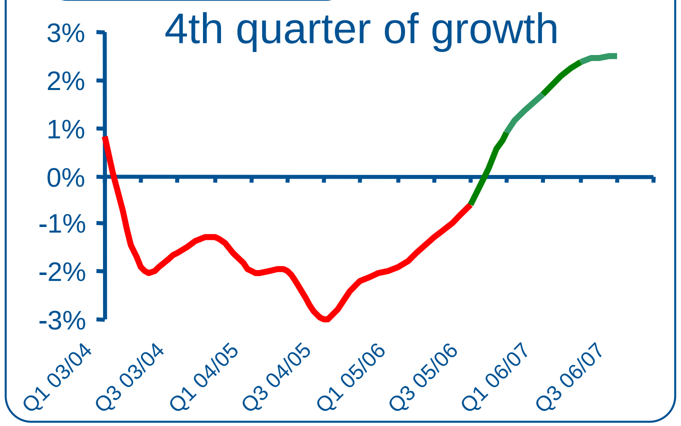
Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT 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 to improve 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.

BT Group strategy – Positive results, positive trends

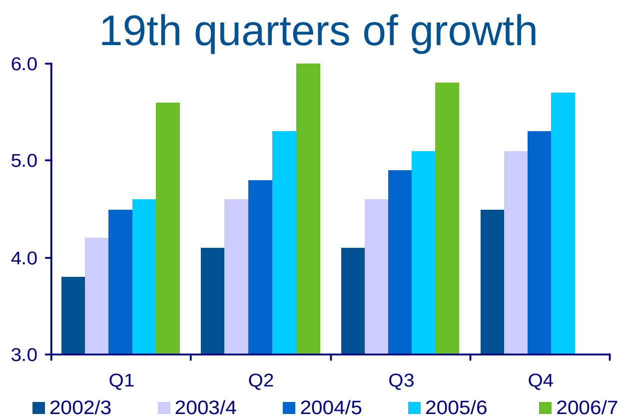
Revenue



EBITDA



EPS



Outlook

On track to deliver growth in revenue, EBITDA*, EPS* and dividends this financial year **AND** 2007/8

* Before specific items and leavers

Q3 2006/7 – Financial headlines

Group revenue	£5.1bn	↑	5%
EBITDA (1)	£1.4bn	↑	2%
Profit before tax (1)	£0.6bn	↑	13%
Earnings per share (1)	5.8p	↑	14%

(1) Before specific items and leavers

And:- £1bn tax credit relating to previous overpayments

Q3 2006/7 – Operational headlines

Defend traditional

Revenue decline reduced to **1%**

The number of active consumer customers grew for the first time in **16 quarters**

Global Services total order intake **£2.5 billion**

Consumer ARPU **up £4**

Long term Partnership with our customers

Grow new wave

34% market share* of broadband net additions

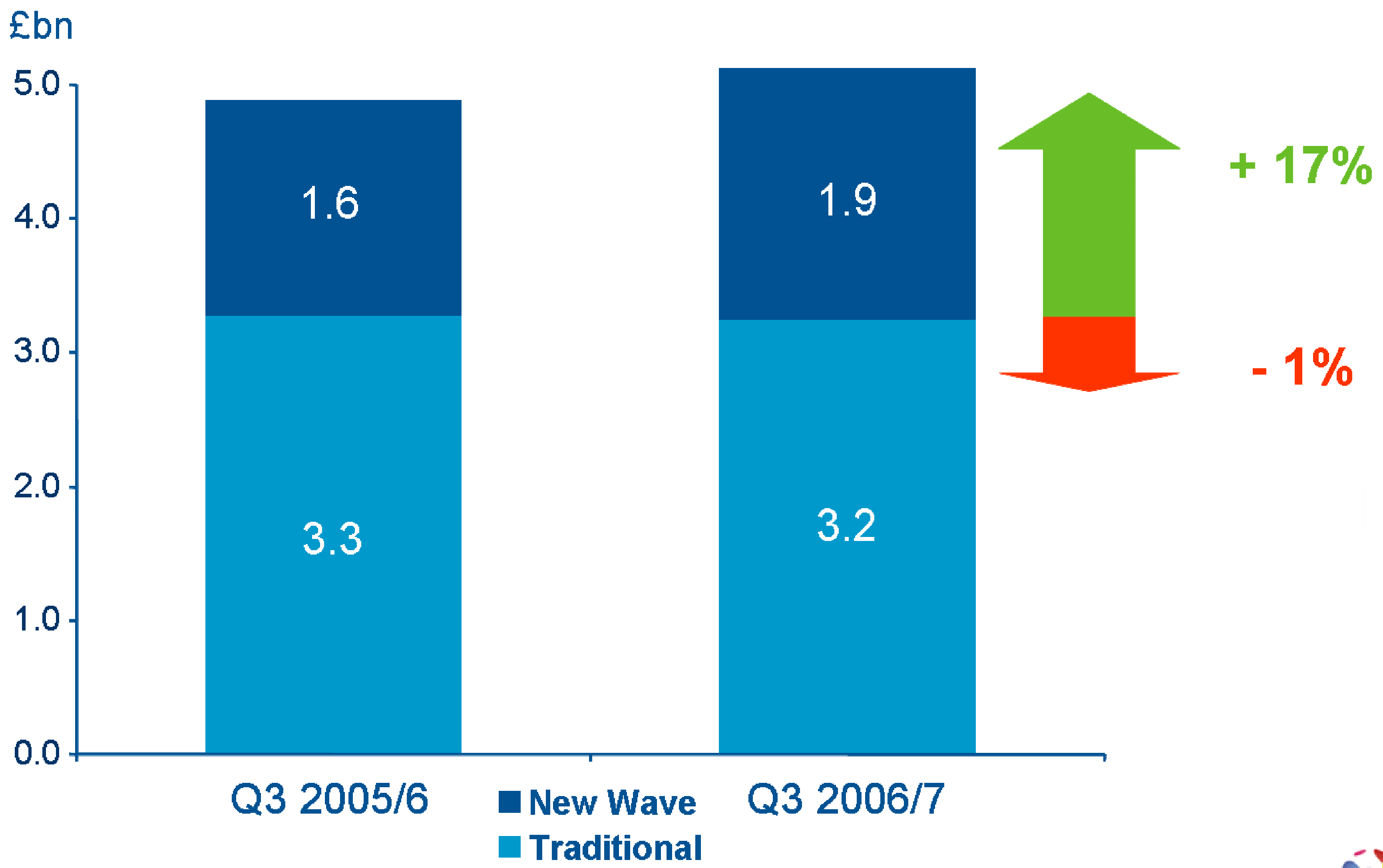
10 million DSL connections (inc 1.3 LLU)

First lines converted

21st Century Network

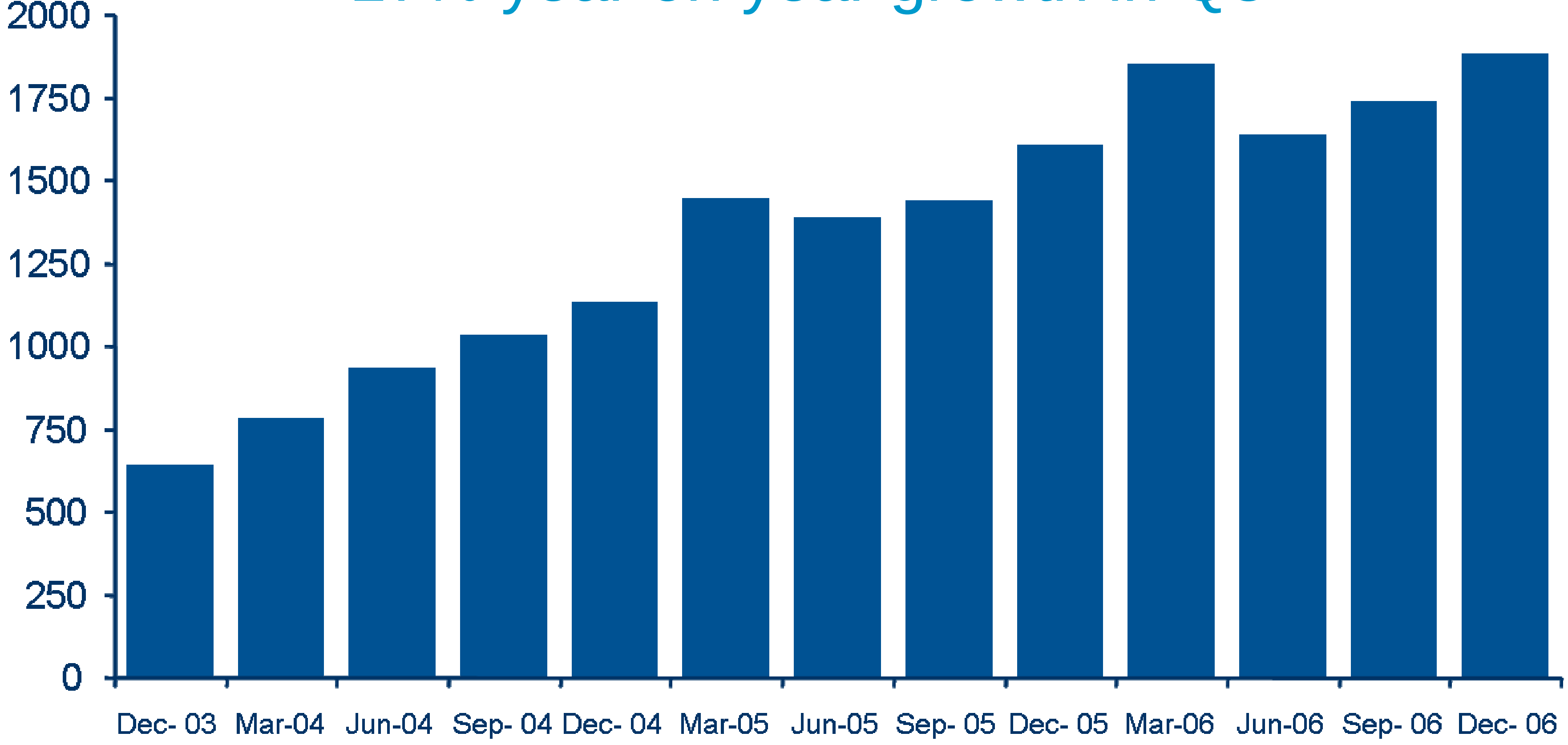
BT

Q3 2006/7 – Group revenue up 5%

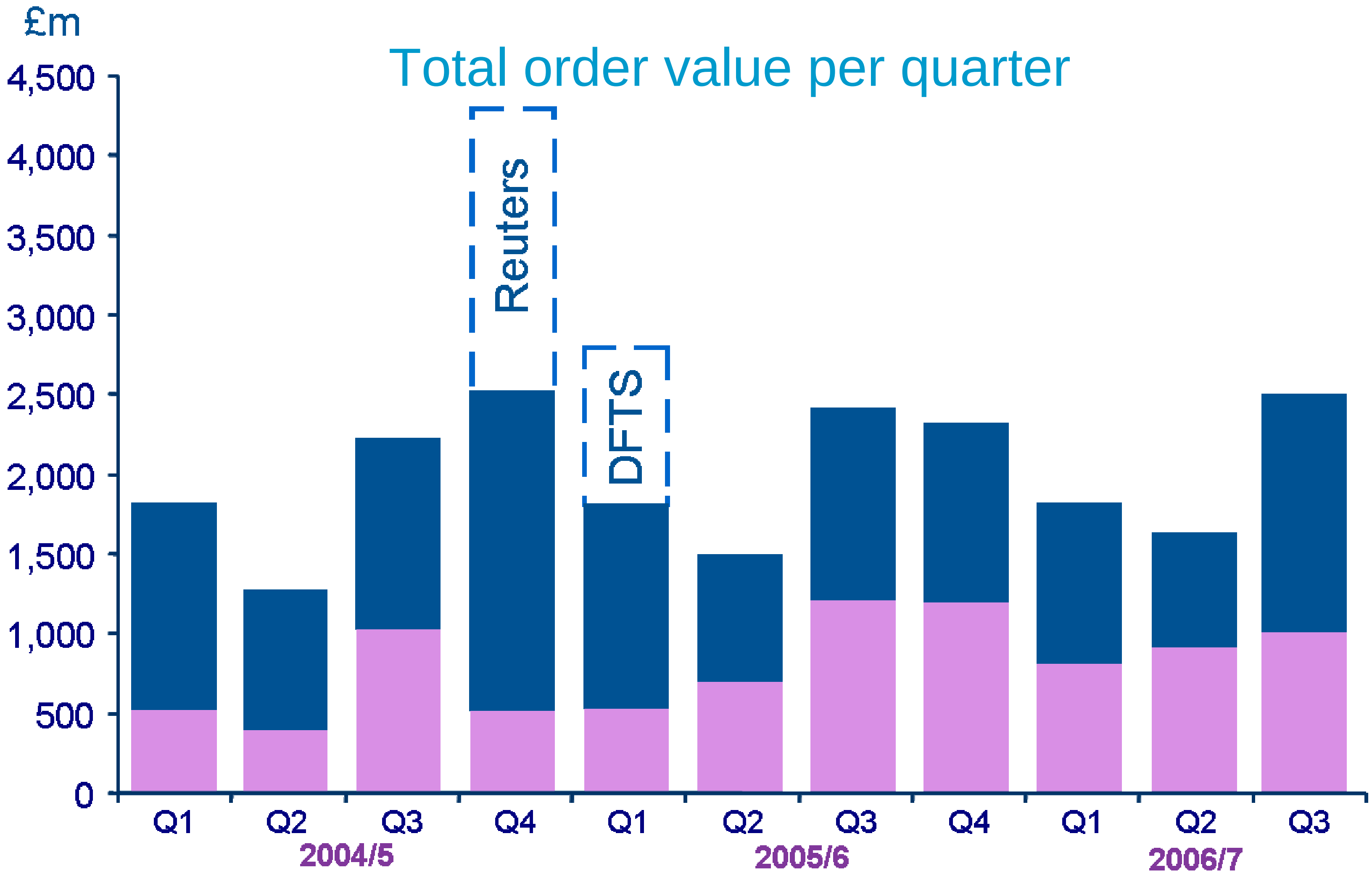


New wave revenue – Strong continued growth

17% year on year growth in Q3



Networked IT services – Winning propositions



Q3 2006/7 – Total order intake £2.5bn

Ministry of Foreign Affairs
Luxembourg

Signed 231 new customers

Networked IT services – Milestone delivery

N3 (7 years**)** £530m

installation ahead of schedule

- Over 18,000 links connected

SPINE (10 years**)** £620m

deployment and functionality on track

- 100% of scheduled software drops made on or ahead of schedule in last 12 months
- Over 1.5 million electronic prescriptions per month
- 250k "Choose & Book" appointments made per month

LSP (10 years**)** £996m

Three new suppliers now rolling out solutions

Philips

Service across 40 countries

- Fully managed solution for data, voice, conferencing and mobile
- 1st time single one-stop support centre

Fiat

five-year, €450m contract

Service across 30 countries

- On track to transfer 80% of traffic onto BT's own platform within 1st year

Liverpool City Council

five-year, £325m contract extension

Answers 2m calls a year

- Reduced housing benefit claim process times from 143 days to 28 days and received the highest CPA score – ranked as 'excellent'.
- Improved business rate collection to 99% . generating an additional £45m.

Networked IT services – Adding capabilities

"Revenues in USA, Japan, China and India
will more than double by 2009" *Andy Green Sept 2006*

USA

INS

Adding over 600 billable consultants skilled in delivering solutions that are centred on repeatability

Serving half of Fortune 1000

Presence in over 30 locations across the United States

Revenue $140m

India

i2i

Customers include over 80% of the ITES/BPO market, as well as attracting numerous global and Indian multinationals in other sectors

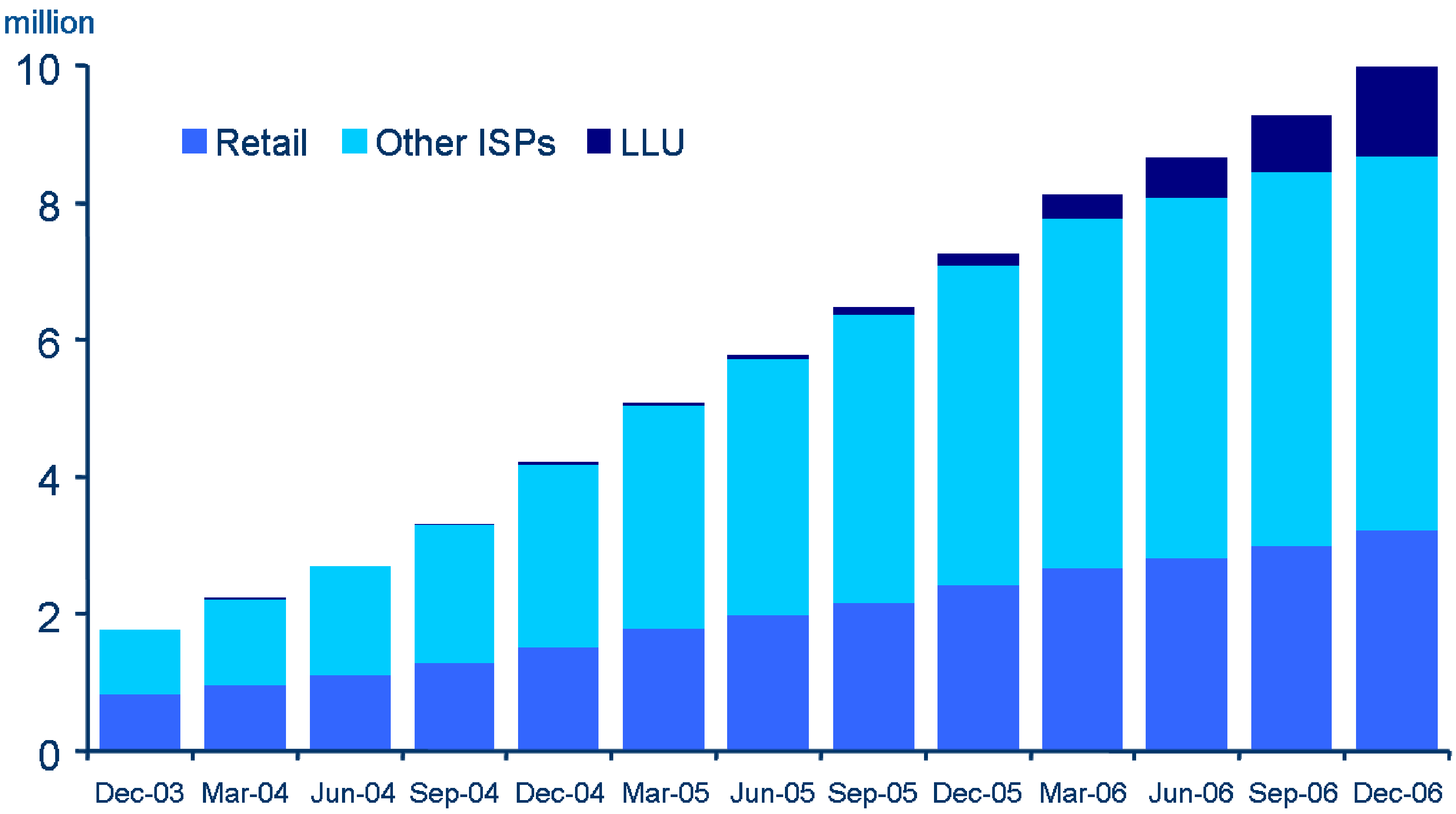
Presence across all major Indian commercial centres

Now the leading Global carrier in India

Revenue $20m

Broadband – Total DSL market

TEN million connections



Broadband – BT Retail

BT Total Broadband

239k net additions

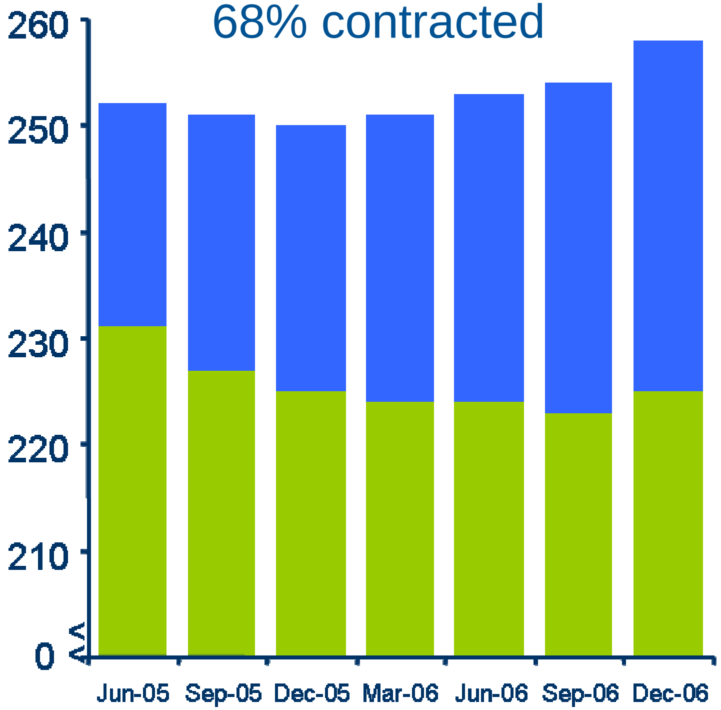
- **34%** of DSL + LLU in Q3
- 60% buy Option 2 or 3

Installed base >3.2m

- **32%** of DSL & LLU

Broadband – Value add services from BT Retail

Consumer ARPU*
up £4 to £258 in Q3
68% contracted



Consumer VoIP > 1m
Six months early

Softphone

HD voice

BT Vision

- Rollout to pre-registered customers on-track

BT Vision

* Rolling 12 months

BT

Mobility – A world first

BT Fusion Wifi

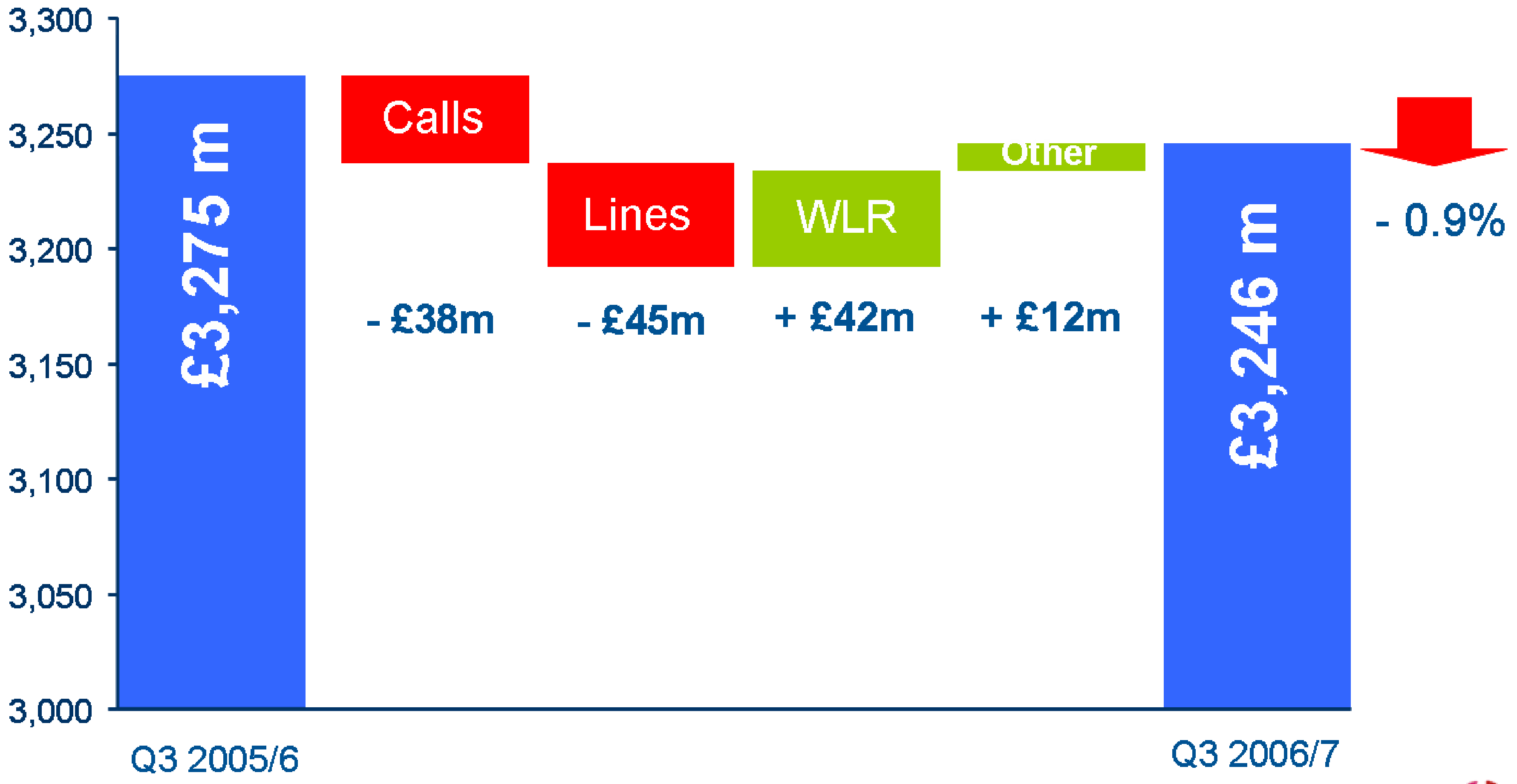
BT Fusion

- Get BT Fusion FREE* for the first 3 months
- FREE† Internet surfing on your mobile at lightning speed if you sign up before the end of March
- Talk for 4 minutes and only use 1 of your inclusive minutes
- BT Home Hub included
- Choose from a range of handsets
- Choose from a selection of call plans to suit you

Launched: Business (Dec ‘06) and Consumer (Jan ‘07)

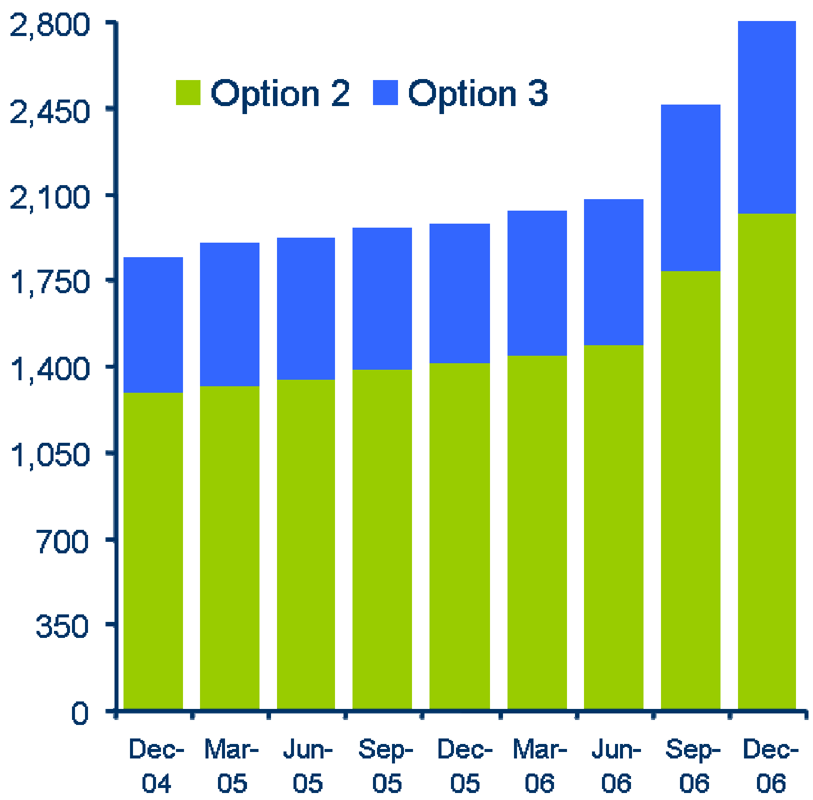
BT

Traditional turnover – Q3 2006/7

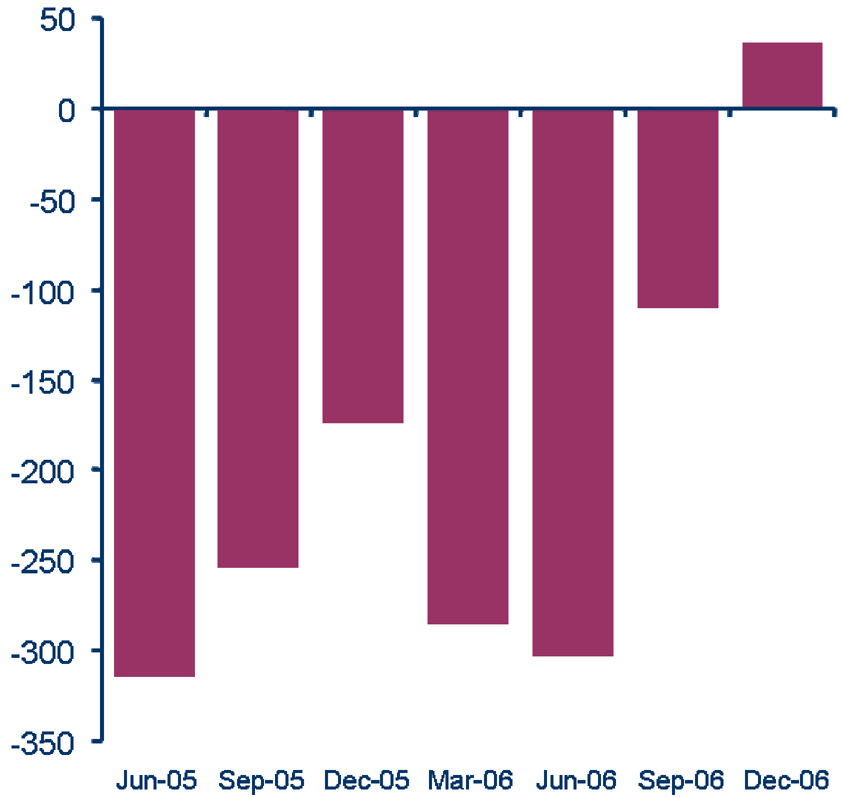


Defend traditional – BT Retail consumer trends

- BT Together
  - Option 2 & 3
    - 333k additions

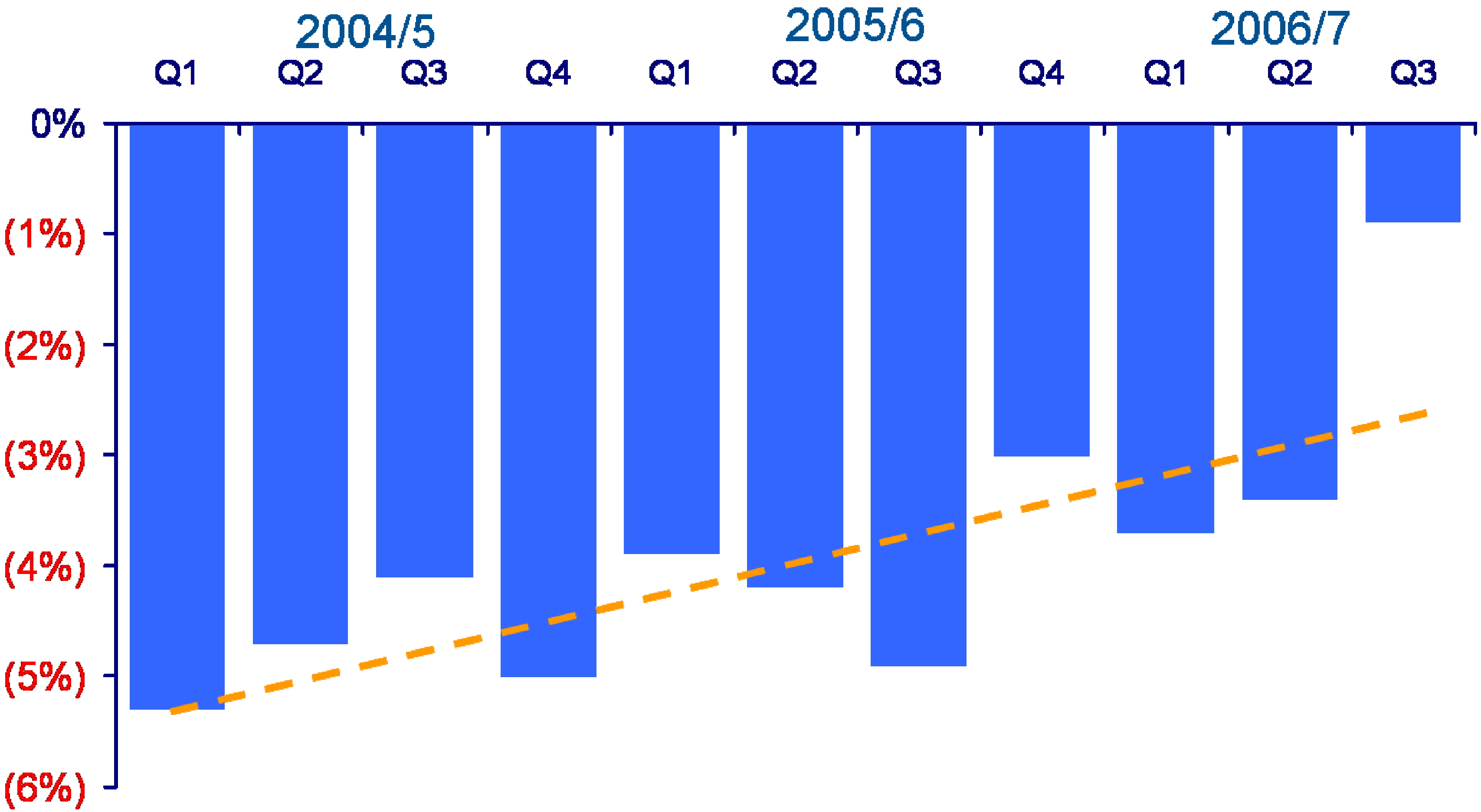


- Active customer additions
  - First time in over FOUR years



BT

Traditional turnover* - improving trend



• Revenue growth versus same period in prior year adjusted for the impact of mobile termination cut and excluding Albacom 2005/6

BT Group – From traditional telco…

Keys to
our evolution

Real time

Global

Open

… to leading services provider with global capabilities

21CN – update

This quarter

- First customers went live
- 10% of core network built
- Over 10% of nodes are deployed nationally
  - Processed over 100 million test calls

This year

- Started pilot of 24Mb broadband
- Currently working with vendors to integrate Ethernet requirements and optimise future delivery
  - Ethernet contracts signed with Nortel and Siemens

openreach – update

a BT Group business

Network investment and performance

- Nearly 90,000 joints have been replaced and sealed
- Completed 20% more provisioning activity than last year
- Overall activity levels in exchanges has risen 33%
- Right first time delivery on active LLU up from 83% to 94%

Servicing our customers

- There are 23 LLU and 400 WLR providers
- 1,500 exchanges have more than one LLU operator present
- Platform can process up to 60,000 line checks per hour

And

- There are now over 1.5 million lines unbundled

Cost control – 2006/7 actions & achievements

Process improvements

- e-billing, > 700k customers
- Inbound call reduction, >2.5m online users
- Network fault volume reduction programme

Supplier management

- Outsourced maintenance support
  - Alcatel-Lucent, 8yr - $350m contract
- Outsourced postal services
  - TNT, 3yr - £90m contract
- Outsourced phone book printing

Global sourcing

- Rebalance onshore/offshore resources for 24/7 service
- Selected customer service related operations
- $1bn Tech Mahindra contract
  - Managed service support

Overhead reduction

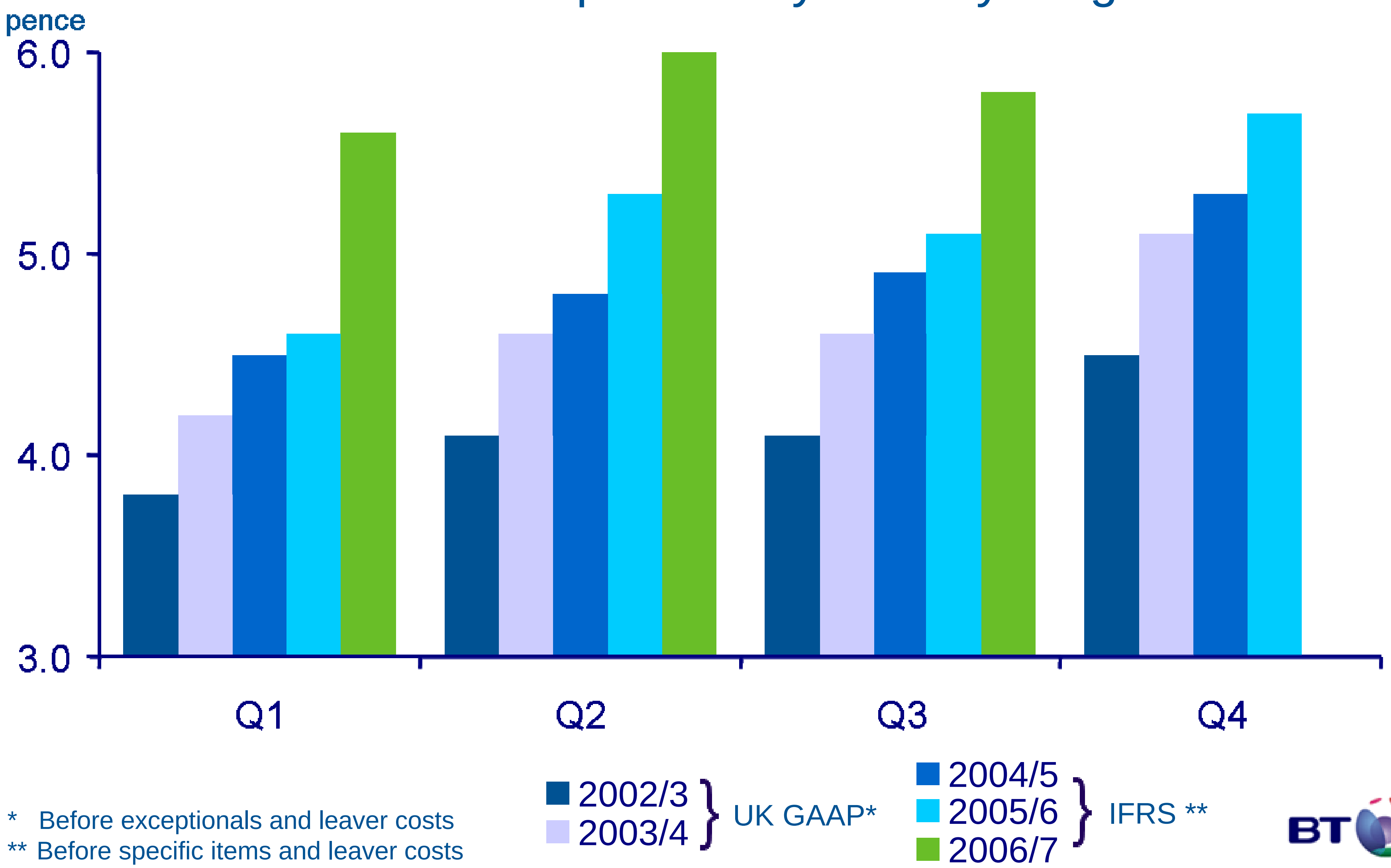
- Acquisition integration
- Zero based budgeting
- Property rationalisation

Deliver > £400m annually

BT

Earnings per share*

19th consecutive quarter of year on year growth



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

Bringing it all Together

Strategy built around convergence & innovation

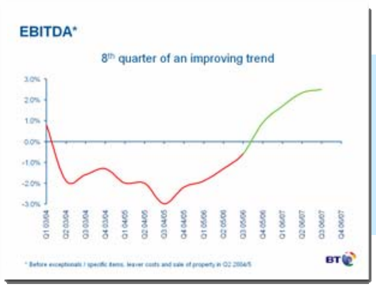
- 17% growth in new wave revenues

Corporate evolution

- From traditional telco to leading services provider with global capabilities

Strong momentum with track record of delivery

- ***Nineteen*** quarters of **EPS** growth
- ***Twelve*** quarters of **revenue** growth
- ***Eight*** quarters of improvement in **EBITDA** trend



On track to deliver growth in revenue, EBITDA, EPS* and dividends this financial year* ***AND*** *2007/8*

* Before specific items and leavers

Hanif Lalani – Group Finance Director

Q3 results 2006/7

Q3 2006/7 – Group P&L

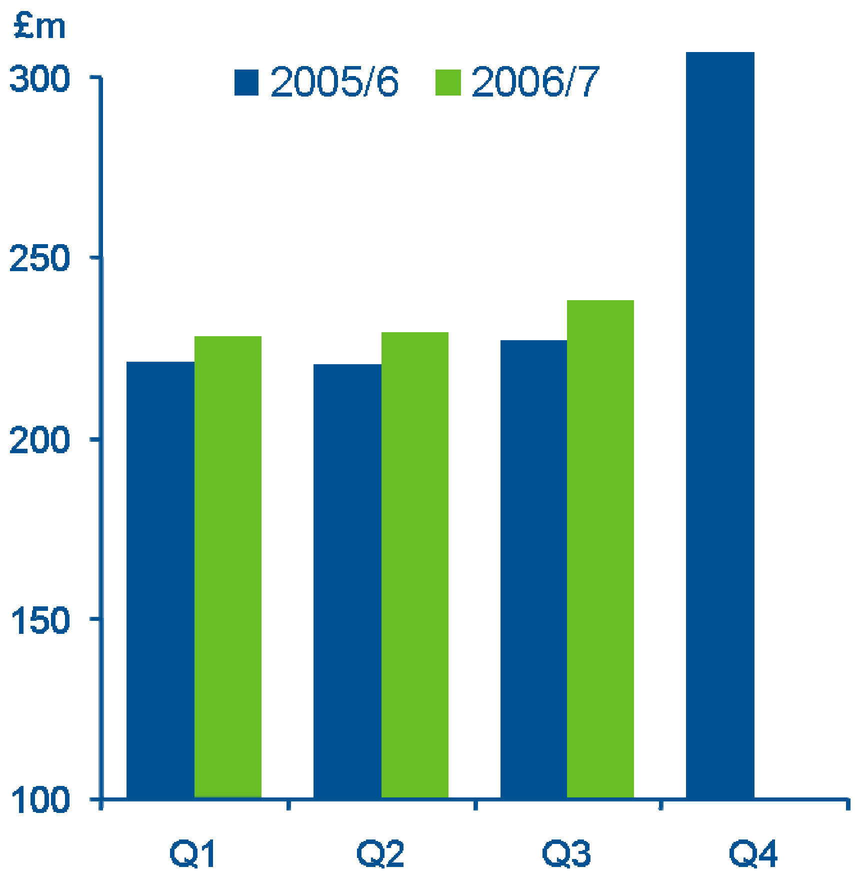
	Q3 2006/7 £m	**Q3** 2005/6 £m	Better / (Worse) £m
Revenue	**5,126**	**4,882**	**244**
EBITDA (pre leavers**)**	**1,439**	**1,404**	**35**
Depreciation & amortisation	(741)	(710)	(31)
Operating profit (pre leavers**)**	**698**	**694**	**4**
Operating margin	*13.6%*	*14.2%*	
Leaver costs	(27)	(23)	(4)
Associates	7	3	4
Finance costs (net)	(62)	(129)	67
Profit before tax	**616**	**545**	**71**
Tax	(150)	(134)	(16)
Profit for the period	**466**	**411**	**55**
Earnings per share	**5.6p**	**4.9p**	**0.7p**

* All numbers are before specific items **(***a net credit of £992m in Q3***)**

Q3 2006/7 – BT Global Services

- Revenue £2.3bn up 4%
  - UK traditional down 6%
  - GS new wave up 8%
- Gross profit £653m, maintained
- SG&A* down 2%
- EBITDA* £238m up 5%
- Depreciation up 13%
- Operating profit* £58m down 13%

EBITDA*

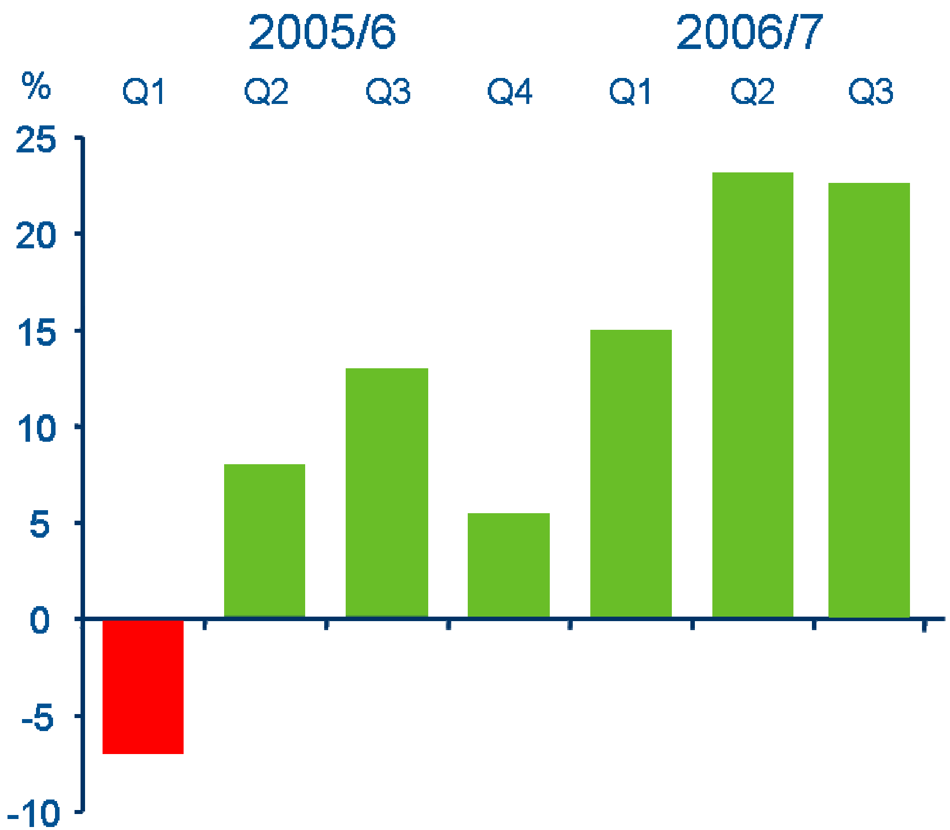


* Before leavers

Q3 2006/7 – BT Retail

- Revenue £2.1bn up 1%
  - Traditional down 5%
  - New wave up 31%
- Gross profit up 7%
  - Margin improved by 1.7 percentage points
- SG&A* down 1%
- EBITDA* £224m up 22%
- Depreciation up 19%
- Operating profit* £181m up 23%

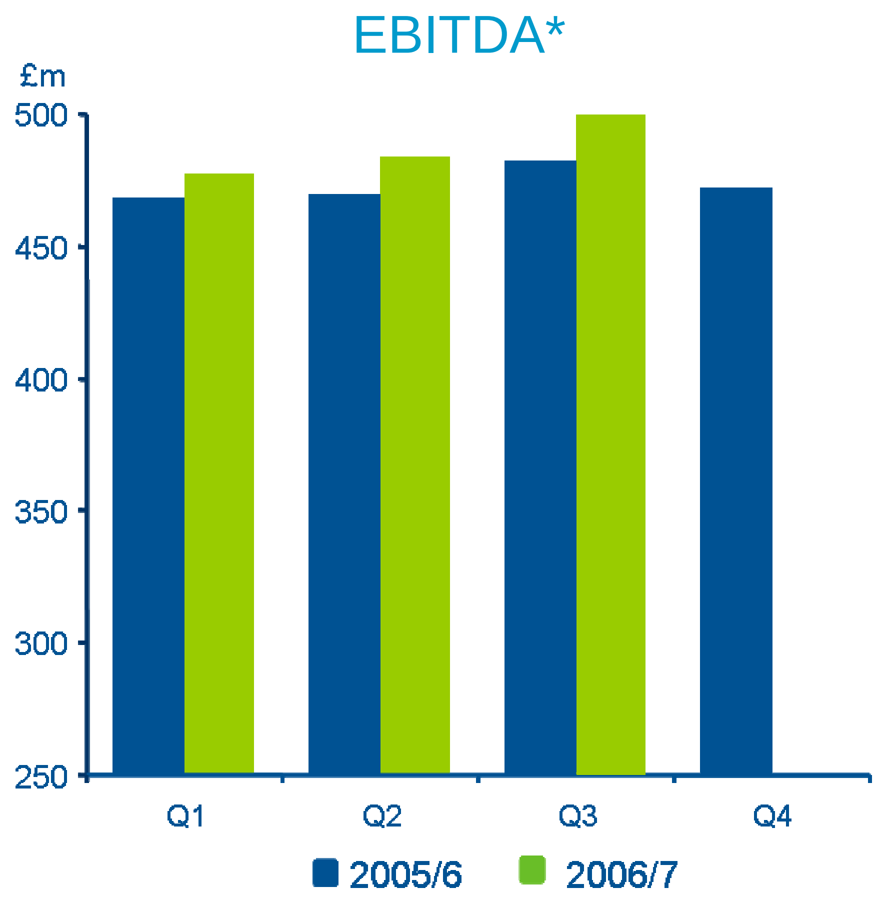
EBITDA* growth



* Before leavers

Q3 2006/7 – BT Wholesale

- Revenue £1.9bn up 4%
  - External £1.0bn up 4%
  - Internal £0.9bn up 4%
- Gross variable profit up 3%
- Network and SG&A* up 1%
- EBITDA* £503m up 4%
- Depreciation up 8%
- Operating profit* £210m

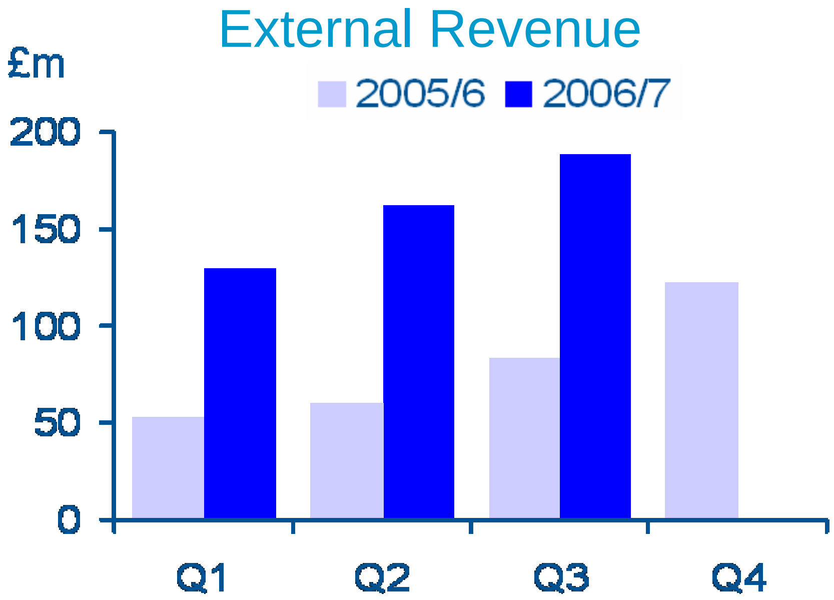


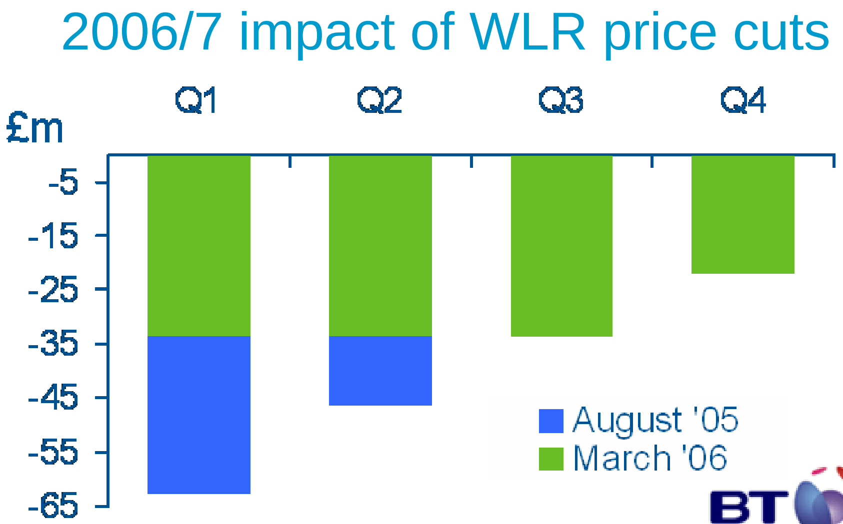
* Before leavers

Q3 2006/7 – openreach

a BT Group business

- Revenue £1.3bn up 3%
  - External up £106m
  - Internal down £70m
- Operating costs* 7% higher at £845m
- EBITDA* £469m, down 4%
- Depreciation down 10%
- Operating profit £292m, maintained

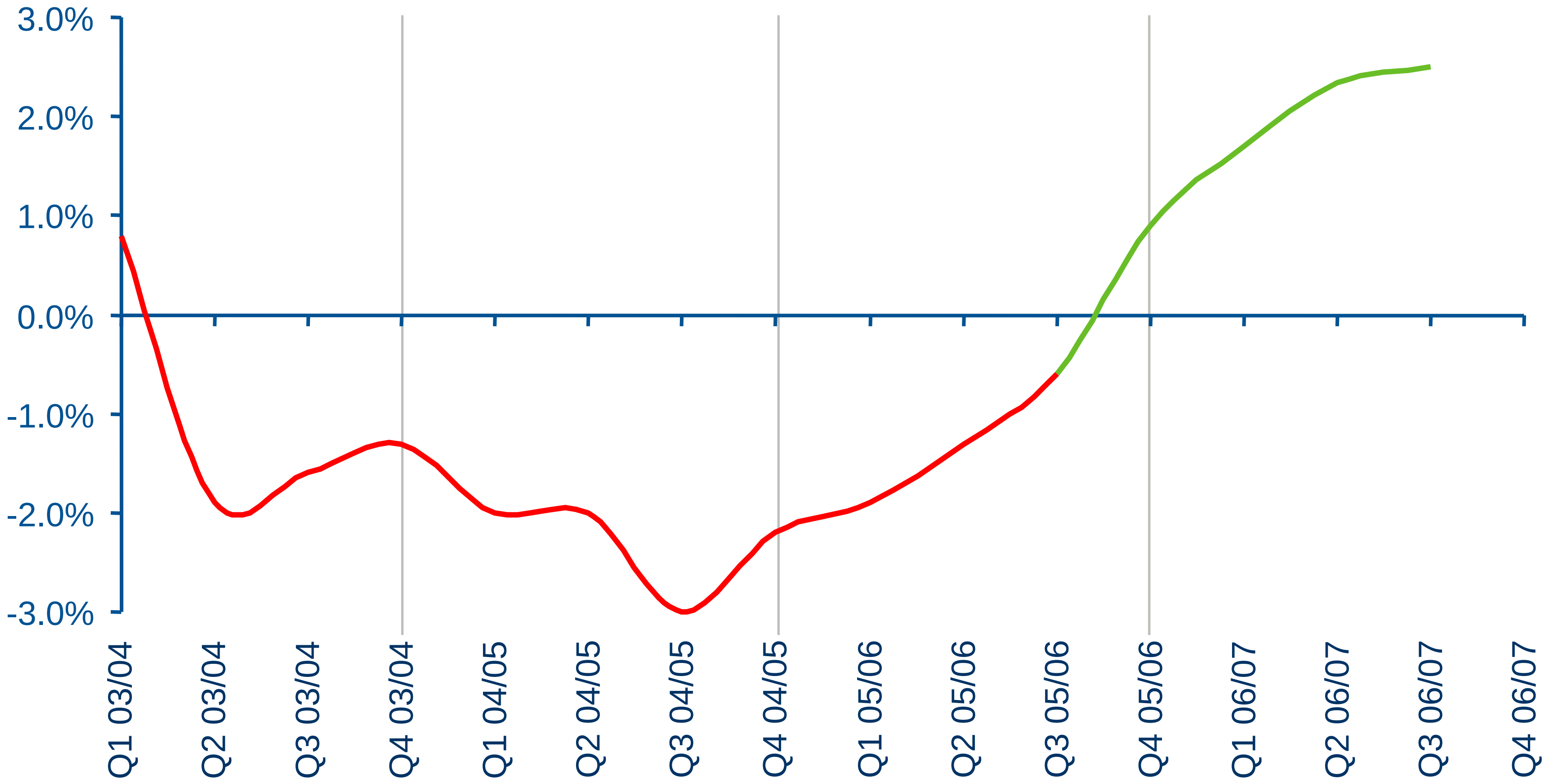




* Before leavers

EBITDA*

8th quarter of an improving trend



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

Q3 2006/7 – Free cash flow

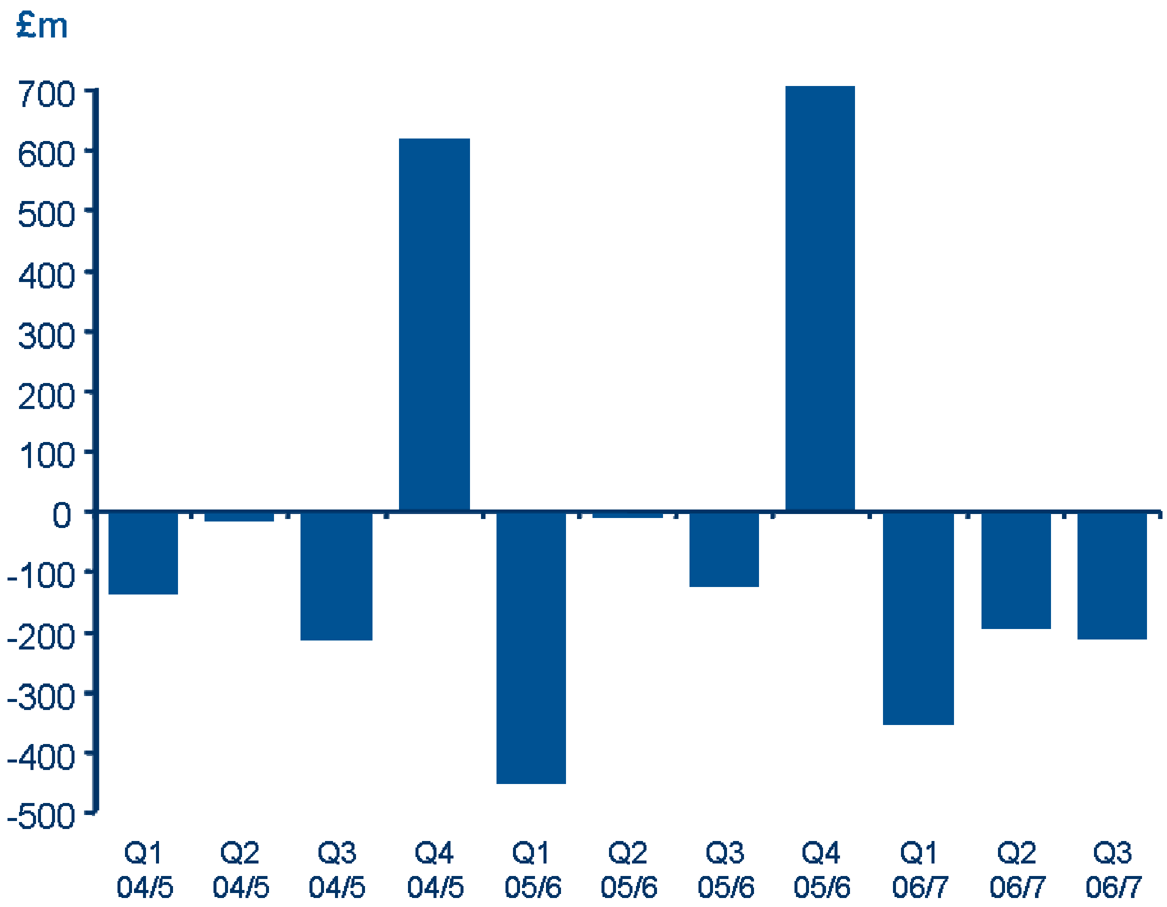
	Q3 2006/7 £m	**Q3** 2005/6 £m	Better / (Worse) £m
EBITDA* (post leavers)	1,412	1,381	31
Interest (net)	(336)	(356)	20
Tax paid	(100)	(75)	(25)
Capex	(777)	(725)	(52)
Working capital & other	(224)	(87)	(137)
Free cash flow	**(25)**	**138**	**(163)**
Pension	(500)	---	(500)
Free cash flow (post pension)	**(525)**	**138**	**(663)**

* Before specific items

Working capital

Lead to cash

- Seasonal trends
  - Reflecting wholesale bill to pay cycles
- Positive turnaround each Q4
- Maturing contracts provide uplift in future years



Clarity on pension and taxation

Pension

Funding terms

- £280m pa over 10 years
- First 3 years up front
  - £500m in Dec ‘06
  - Further £340m by end of April ‘07

IAS19

- Deficit
  - £1.6bn (pre tax) / £1.1bn (post tax)
- Assets = £37.8bn
- Liabilities = £39.4bn
  - Life expectancy rate is as per Dec ‘05 funding valuation

Taxation

Settlement of open years

- Tax years 1994/5 – 2004/5
- P&L credit of £1,067m
- Cash receivable in Q4 2006/7 and H1 of 2007/8
- Effective tax rate
  - In 2006/7 = 24.5%
  - In 2007/8 = 25% - 26%

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
  - Next generation broadband
  - Managed network solutions
  - Cost efficiencies

Openreach

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

On track to deliver growth in revenue, EBITDA, EPS* and dividends this financial year **AND** 2007/8*

* Before specific items and leavers

BT Group plc

Q3 results 2006/7