

Annual Review and Notice of Meeting

28 May 2008

Peter White

In

Hi there! My name is Peter White. Welcome to highlights from this year's Annual Review and Notice of Meeting.

I will begin by giving you details about this year's annual general meeting then read a cautionary note about forward looking statements contained in the review before updating you on BT's Board of Directors.

Next, I will read the Chairman's message, follow this with financial highlights and then come to a review of the year.

All references to 'BT Group', 'BT', 'the group', 'the company', 'we' or 'our' are to BT Group plc (which includes the activities of British Telecommunications plc) and its subsidiaries or any of them as the context may require.

This year's Annual General Meeting is to be held at 10.30 am on 16 July 2008 at the Barbican Centre, Silk Street, London EC2Y 8DS. There are 15 resolutions to consider which I will outline later.

Now here is the cautionary statement.

This audio, and the related summary financial statement, upon which it is based, contain certain statements that 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, are those concerning: expected continued growth in revenue, EBITDA (earning before interest, tax, depreciation and amortisation) and earnings per share (both before specific items and leaver costs); and levels of free cash flow; and increased dividends per share.

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 for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; timing of entry and profitability of BT in certain communications markets; 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; significant changes in market shares for BT and its principal products and services; fluctuations in foreign currency exchange rates and interest rates;

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.

Shareholders who would like more detailed information may obtain a copy of the full Annual Report for 2008 and/or future years, free of charge, by calling our Shareholder Helpline on Freefone 0808 100 4141 (+44 121 415 7178 from outside the UK) or can view it online at **www.bt.com/annualreport**

This is the BT Board of Directors:

Chairman

Sir Michael Rake,

Appointed to the Board as Chairman on 26 September 2007. He was formerly chairman of KPMG International from 2002 until 2007. He is chairman of the UK Commission for Employment and Skills, and a director of Barclays, McGraw Hill, and the Financial Reporting Council. Other appointments include: vice-president of the RNIB, a member of the board of the TransAtlantic Business Dialogue, a member of the CBI International Advisory Board, the Chartered Management Institute, and BERR's US/UK Regulatory Taskforce. He was knighted in 2007 for his services to accounting.

Executive Directors:

Ben Verwaayen, Chief Executive

A Dutch national, appointed to the Board on 14 January 2002 and Chief Executive on 1 February 2002. Ben will step down as Chief Executive on 31 May and will leave the Board on 30 June. Formerly vice chairman of the management board of Lucent Technologies in the US from October 1999. In 2006, he was created an Officer of the Order of Orange-Nassau and appointed a Chevalier de la Légion d'Honneur in June 2006. He was appointed an honorary KBE in 2007 in recognition of his services to the communications industry. Other appointments: non-executive director of UPS.

François Barrault, Chief Executive, BT Global Services

A French national, appointed to the Board as Chief Executive, BT Global Services on 24 April 2007. Previously President BT International, BT Global Services, and was formerly president, Lucent Technologies. Other appointments: non-executive director of eServGlobal (an Australian corporation).

Hanif Lalani, OBE, Group Finance Director

Appointed to the Board as Group Finance Director on 7 February 2005. A Chartered Management Accountant, he was formerly Chief Financial Officer for BT Wholesale. He was awarded the OBE in 2003 for services to business in Northern Ireland.

Ian Livingston, Chief Executive, from 1 June 2008

Chief Executive, BT Retail, from 7 February 2005 until 1 May 2008, Ian becomes Chief Executive on 1 June 2008. A Chartered Accountant, he was Group Finance Director from April 2002. Formerly group finance director of Dixons Group, a non-executive director of Ladbrokes (previously Hilton Group) and also a director of Freeserve from its inception. He is a non-executive director of Celtic.

Non-executive Directors:

Maarten van den Bergh, Deputy Chairman

A Dutch national, appointed to the Board on 1 September 2000. He was appointed Deputy Chairman on 1 October 2006. He is the senior independent director. Before retiring in 2000, he was president of the Royal Dutch Petroleum Company and vice chairman of its committee of managing directors. He is a former chairman of Lloyds TSB Group. Other appointments: chairman of Akzo Nobel Supervisory Board; non-executive director of British Airways, and of Royal Dutch Shell.

Matti Alahuhta

A Finnish national, appointed to the Board on 1 February 2006. President of Kone Corporation since January 2005, president and CEO since 2006 and a director since 2003. Formerly president Nokia mobile phones and president Nokia telecommunications. Other appointments: foundation board chairman of International Institute of Management Development; non-executive director of UPM-Kymmene Corporation, member of the Board of Helsinki University of Technology and chairman of the Centennial Foundation of the Finland Technology Industries .

Clayton Brendish

Appointed to the Board on 1 September 2002. Previously executive deputy chairman of CMG. Other appointments: non-executive chairman of Anite, Close Beacon Investment Fund and Echo Research; non-executive director of Herald Investment Trust; trustee of Economist Newspapers and Foundation for Liver Research.

J Eric Daniels

A US national, appointed to the Board on 1 April 2008. Group chief executive of Lloyds TSB Group since 2003 and a director since 2001. He worked for Citibank from 1975-2000 becoming chief operating officer of Citibank's consumer bank, then chairman and CEO of Travelers Life and Annuity following its merger with Citibank. After that, he was chairman and CEO of Zona Financiera before joining Lloyds TSB Group.

Rt Hon Patricia Hewitt MP

A British and Australian dual national, appointed to the Board on 24 March 2008. Labour MP for Leicester West, she was Secretary of State for Health from 2005 to 2007 and previously for Trade and Industry from 2001 to 2005 and Cabinet Minister for Women. Before entering Parliament, she was director of research EMEA at Andersen Consulting (now Accenture) and deputy director of the Institute for Public Policy Research. A senior adviser to Cinven and a special consultant to Alliance Boots.

Phil Hodgkinson

Appointed to the Board on 1 February 2006. Formerly group finance director of HBOS. A Fellow of the Institute of Actuaries, he was formerly chairman of Insight Investment, Clerical Medical Investment Group, Halifax Financial Services and the HBOS Foundation . Other appointments: non-executive director of Business in the Community and Travelex, and a trustee of Christian Aid.

Deborah Lathen

A US national, appointed to the Board on 1 February 2007. A US attorney, president of Lathen Consulting. Formerly chief of the Cable Services Bureau at the Federal Communications Commission. She was previously director of national consumer affairs and managing counsel at Nissan Motor Corporation USA.

Carl G Symon

A US national, appointed to the Board on 14 January 2002. Formerly chairman and chief executive officer of IBM UK. Other appointments: chairman of HMV Group and Clearswift Systems; non-executive director of Rexam; an advisory board member of Cross Atlantic Capital Partners, and formerly a non-executive director of Rolls-Royce.

Gavin Patterson, Chief Executive, BT Retail

Joins the Board on 1 June 2008. Appointed Chief Executive, BT Retail on 1 May 2008. Gavin joined BT in January 2004 as Managing Director, Consumer Division, BT Retail. Before joining BT, he was managing director of the consumer division of Telewest. He joined Telewest in 1999 and held a number of commercial and marketing roles, after working for Procter & Gamble since 1990.

Now here is Chairman Sir Michael Rake's message to shareholders.

Welcome to our combined Annual Report and Notice of Meeting. I am looking forward to my first AGM and hope that you can join Ian Livingston and me at the Barbican Centre on Wednesday 16 July.

I am pleased to report that we are recommending a full year dividend of 15.8 pence, up 5% from last year, reflecting the group's strong performance and the Board's continued confidence in the future of the business.

Your vote is important to the good governance of your company. If you are not going to be at the meeting, and you want to vote on any of the resolutions, please complete and return the proxy form to our Registrars, Equiniti.

Before saying anything else, I want to pay tribute to your Chief Executive of the past six and a half years, Ben Verwaayen, who will be stepping down on 1 June 2008. Ben has been a truly exceptional Chief Executive. His courage, determination, vision and energy have transformed BT. When he arrived in 2002; BT was a deeply troubled organisation with huge debts and an uncertain future. Since then, under his leadership, BT has delivered

Broadband Britain, built a successful and fast growing global operation and changed the regulatory landscape in the UK through the creation of Openreach.

This has enabled the most competitive broadband market in the world to flourish. Ben has also – and I'll return to this – overseen the creation of a diverse and hugely impressive talent pool in BT at executive team level and throughout our many operations and specialist businesses around the world. He has restored pride in BT and I know that he feels that in many ways this will prove to be his most important legacy. Great credit is also due to my predecessor Sir Christopher Bland who stepped down in September. He was an outstanding Chairman to whom I and the rest of BT owe a tremendous debt of gratitude.

I've been at BT for eight months and have enjoyed my time here enormously. Having had a chance to meet BT people and get a first hand view of operations, I am convinced that we have the right strategy and, just as importantly, the right team to take it forward. That team consistently demonstrates that it has the imagination and agility to deliver for our customers.

We need to drive standards higher for the whole of the industry. Being number one for service in our own sector is simply no longer good enough. We have to make outstanding customer service a differentiator for BT. That will enable us to build on our position as Britain's favourite broadband provider, grow our wholesale and global businesses, and drive down the costs we incur when things go wrong. The transformation that Ben and Christopher initiated continues.

It is vitally important for companies to be responsible and contributing members of the communities in which they operate. BT has an enviable track record when it comes to living up to its social and environmental responsibilities and I am delighted that BT won Business in the Community's prestigious Company of the Year award for our positive impact on society. The award goes to the company judged to be improving its business and its overall impact on society, in the marketplace, the workplace, the environment and the community, through leadership and integration of responsible business practices.

We were also the top telecommunications company in the Dow Jones Sustainability Index for the seventh year in a row. The importance of such awards is that they highlight all the hard work, imagination and commitment throughout our organization that is focused on operating in an ethical, sustainable and socially responsible way. Around one third of BT people are involved with corporate social responsibility related activities. We provide the manpower and technology for major charity appeals including Children in Need and Comic Relief, and we are working closely with children's charity Childline on a campaign to ensure that no call for help goes unheard.

As we increasingly operate globally, so the emphasis is on being good citizens of the world and making a difference worldwide. For example, when your Board recently held a meeting in India, we were able to see the marvellous work that the Katha IT and E-commerce School or KITES as it is known - which BT supports - is doing for kids in one of Delhi's slums. We recognise that we have a responsibility to the environment and aim to be a leader in the new low-carbon economy. Ben Verwaayen chaired a recent CBI task force which was set up to make recommendations on combating climate change.

And we are very conscious of the importance of reducing our emissions and reducing waste in-house. Our CO2 emissions in the UK are 58% lower than they were in 1996 and we aim to improve this to 80% by 2016. Our contract to purchase green energy is one of the largest in the world and we are

developing wind powered projects which should meet up to 25% of our UK electricity needs by 2016.

The creation of a genuinely competitive environment, wherever we operate around the world, is fundamental to our continued ability to meet our customers' needs.

In the UK, it is vital that the regulatory environment should enable us to make the necessary investments in the next generation of the UK's communications infrastructure with confidence. In the European Union we are also looking for a level playing field that allows BT access to other markets.

I'm delighted that Ian Livingston is taking over from Ben as your Chief Executive. He has delivered brilliantly for BT, both as group finance director and CEO of BT Retail. He was the unanimous choice of the Board after a rigorous international search process. He leads a team of executive directors of exceptional talent: Hanif Lalani, who was recently named the 2008 Real FD/CBI finance director of the year (FTSE 100); François Barrault, CEO of BT Global Services; and Gavin Patterson, who has been CEO of BT Retail since 1 May 2008.

I'd like to thank Andy Green and Paul Reynolds both of whom stepped down as executive directors during the year. They provided first-class support for Ben over a number of years and I wish them well in their new careers. My thanks also to Larry Stone who provided excellent support to the Board as Company Secretary for the past six years, and who moves on to become BT's President of Group Public and Government Affairs. He is replaced by Andrew Parker who was previously General Counsel, BT Retail.

There have also been a number of changes to your non-executive team during the year. Baroness Margaret Jay and John Nelson both left after six years of invaluable service to BT. In their place, I would like to welcome two new non-executive directors, both of whom bring a wide range of skills and experience with them. In addition to a distinguished political career, Patricia Hewitt has extensive business and international experience.

Eric Daniels is group CEO of Lloyds TSB. In addition, his years as chairman and CEO of Zona Financiera, a leading Latin American financial portal, will be of great value to us as we seek to build further our presence in the region.

One of the directors proposed for re-election this year is an independent non-executive director, Carl Symon. I am pleased to confirm to shareholders that, following formal performance evaluation, we continue to regard Carl as a very effective non executive director. He demonstrates the highest commitment to the role and makes a valuable contribution in Board deliberations and as chairman of the Equality of Access Board.

Directors appointed since the last AGM have to retire at this meeting and Eric Daniels and the Rt Hon Patricia Hewitt, who both joined the Board earlier this year, will automatically retire at the AGM and be proposed for election, as I shall have to myself. Gavin Patterson, Chief Executive of BT Retail, joins the Board on 1 June and has to retire at the AGM, where he will be proposed for election. Gavin was formerly Group Managing Director of BT Retail's Consumer Division

I'm very proud to report that in March 2008 we announced that BT had been selected as the official communications services partner for the London 2012 Olympic Games and Paralympic Games. As a company committed to the proposition that better communications can mean better lives and a better world, we will be providing the communications services infrastructure for one of the world's greatest sporting events and putting the BT brand at the heart of 'a Games for the Digital Age'.

The partnership will be a fantastic opportunity to showcase BT and our capabilities – who we are, what we believe in and what we can do – in the context of a key event in the life of the nation. I'm also delighted that BT is giving a boost to Team GB athletes by helping fund their journey to the Beijing Olympic Games in August. From our perspective, the countdown to London 2012 has already started.

Looking to the future, BT will continue to deliver on its strategy and to create new and exciting ways for our customers to communicate and collaborate. That strategy is creating value for our shareholders. In 2009, we expect to deliver continued growth in revenue, EBITDA and earnings per share (both before specific items and leavers costs) as we continue our transformation from a fixed-line business into a software-driven communications company. We also expect our free cash flow to be at a similar level to 2008 and to increase dividends per share in 2009. I believe that we have the right team in place and the right culture throughout the organisation – an absolute commitment to the customer and a determination to get it right first time. There is every reason for optimism.

That concludes your Chairman's letter to shareholders.

Now let tell you about BT's Financial highlights for the 2008 year ended 31st March:

- Revenue of £20,704 million, up 2%

- EBITDA before specific items of £5,784 million, up 3%
- Profit before taxation and specific items of £2,506 million
- Earnings per share before specific items of 23.9 pence, up 5%
- Free cash flow of £1,503 million, up 11%
- Full year proposed dividend of 15.8 pence per share up 5%

I now come to the year in review.

BT is one of the world's leading communications services companies and serves customers in over 170 countries. Our vision is to be dedicated to helping customers thrive in a changing world.

We are meeting the needs of our different customer groups – major corporates, government and financial institutions, consumers, small and medium-sized enterprises, and other communications providers – through four customer-facing lines of business -- BT Global Services, BT Retail, BT Wholesale and Openreach – supported by two internal functional units, BT Design and BT Operate.

BT Global Services serves corporate, carrier and government organisations across the world, providing high-performance managed networked IT services, applications management, professional services and outsourcing solutions. Highlights for 2008 are that over 60% of Fortune Global 500 companies and over 65% of FTSE 100 companies are our customers and with EBITDA (before specific items and leaver costs) margins of 11.2%, we are making progress towards our 15% target.

BT Retail serves consumer customers as well as small and medium-sized enterprises in the UK, providing a range of innovative products and services. It also comprises BT Ireland and our Enterprises division. 2008 highlights BT is the UK's most popular broadband retailer, and around 1 million businesses rely on us.

BT Wholesale brings economies of scale to 700+ UK communications companies through a diverse portfolio ranging from nationally available broadband, voice and data connectivity services and interconnect, to bespoke, fully managed network outsourcing and value-added solutions. Highlights of 2008 [puase] a four-year outsourcing deal with the Post Office and provision of voice network management services to Virgin Media.

Openreach is responsible for the crucial 'first mile' connecting communications providers' customers to their local telephone exchange, giving them equal, open and economic access to the UK network. In 2008 we achieved significant progress in enhancing the competitive environment in the UK communications services market with 4.3 million unbundled non-BT lines in the UK and a 40% improvement in service provision lead times.

BT Design is responsible for the design and deployment of the platforms, systems and processes which support our products and services, and BT Operate is responsible for their operation.

Our strategy, is based on long-term partnerships with our customers and leveraging our Global 21CN platform to, grow new-wave products and services and defend traditional business with increased focus on providing global, real-time and open platforms and putting the customer at the heart of everything we do.

Our ongoing commitment is to increase shareholder returns by:

- driving profitable growth in new wave products and services such as global networked IT services, broadband and convergent mobility solutions

- maximising the potential of our traditional business through a combination of enhanced quality of service, creative marketing, innovative pricing and cost efficiency
- transforming our networks, systems and services for the 21st century,
- and creating long-term partnerships with our customers.

Our achievements include £7.6 billion paid out to shareholders in the past five years, nine per cent growth in new wave revenue in 2008 , £1.5 billion cost savings achieved in the past three years, 40% of core 21 CN infrastructure built and £1.8 billion projected value of wholesale managed network services contracts signed in 2008.

The key performance indicators against which we measured the success of our strategy in 2008 were customer service, earnings per share before specific items, and free cash flow. In customer service there was an increase of 9 % in 'right first time', earnings per share before specific items rose to 23.9 pence and free cash flow reached £1,503 million, up11%.

In addition to our stated key performance indicators, we also achieved what we said we would aim to do in 2008:

- continue to grow revenue and EBITDA before specific items
- accelerate the strategic transformation of our business
- introduce a two-year £2.5 billion share buy back programme
- maintain our solid investment grade credit rating
- invest in the growth of the business

In 2008, 40% of external revenue was earned by BT Retail, 38% by BT Global Services, 18% by BT Wholesale and 4% by Openreach.

Our capabilities range from:

- the provision of a single, domestic telephone line to the development of an innovative network infrastructure for the twenty-first century
- mission critical global networked IT services for multinationals to broadband packages for the home
- next-generation TV to Voice over IP services
- innovative calls packages for homes and businesses to value-added services such as online trading communities and comprehensive IT support

In order to be where our customers need us to be, we are growing our global business organically and through acquisitions... Our non UK regional revenues comprised Europe (excluding UK) – 15%; Americas – 19%; Asia Pacific – 66%.

Ethics and integrity are core to the way we work, our values are:

- Trustworthy: we do what we say we will
- Helpful: we work as one team
- Inspiring: we create new possibilities
- Straightforward: we make things clear
- Heart: we believe in what we do

In 2008, BT was ranked as the top company in the telecommunications sector in the Dow Jones Sustainability Index for the seventh year in a row. Our UK CO2 emissions are 58% below their 1996 levels and we are committed to achieving an 80% reduction from our 1996 baseline by 2016.

We commit a minimum of 1% of our UK pre-tax profits in cash and in kind to activities which support society. We have ISO 9001 certification for most of our operations in the UK and around the world.

Your company also holds current awards for 'Company of the Year - Business in the Community', Dow Sustainability Index and Queens Award for Enterprise – Sustainable Development.

The company's financial statements for the year ended 31 March 2008 have been prepared on a going concern basis as, after making appropriate enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future.

The company's auditors PricewaterhouseCoopers LLP have reported that in their opinion the Summary financial statement is consistent with the full annual financial statements, the Report of the Directors and the Report on Director's remuneration of BT Group plc for the year ended 31 March 2008 and complies with the applicable requirements of Section 251 of the Companies Act 1985, and the regulations made there under that section. The full statement of the auditors can be read in the printed or in the online version of these Summary financial statements at www.bt.com/annualreport

The Annual Review and Notice of Meeting contain a number of financial tables and a summary report on directors' remuneration, as well as other detailed information for shareholders. Full details can again be found online at www.bt.com/annualreport

Finally I come to the 15 resolutions to be considered at the AGM. These are:

Resolution 1: to receive the report and accounts;

Resolution 2: to approve the remuneration policy contained in the report on directors' remuneration

Resolution 3: to declare payable the final dividend of 10.4 pence per share recommended by the directors on 15 September 2008 to holders of ordinary shares registered at the close of business on 22 August 2008.

Resolutions 4 to 5: to re-elect the following directors:

Hanif Lalani

Carl Symon

Resolution 6 to 9: to elect the following directors:

Sir Michael Rake

Gavin Patterson

J Eric Daniels

The Rt Hon Patricia Hewitt MP

Resolution 10: to re-appoint PricewaterhouseCoopers as auditors of the company.

Resolution 11: to authorize the directors to decide the auditors' remuneration.

Resolution 12: *(to be proposed as an ordinary resolution)* to renew the authority and power conferred on the directors in relation to the Section 80 Amount by Article 74 of the company's articles until 15 October 2009 and for that period the Section 80 amount will be **£ 127** million.

Resolution 13 *(to be proposed as a special resolution)*: to extend the authority and power conferred on the directors by Article 74 of the Company's articles of association to any sale of shares which the company may hold as treasury shares and to renew it until 15 October 2009 and for that period the Section 89 Amount shall be **£21** million.

Resolution 14 *(also to be proposed as a special resolution)*: to authorize the company to make market purchases -as defined in Section 163 of the Companies Act 1985 - of shares of 5p each in the company, subject to certain conditions.

Resolution 15 to authorise British Telecommunications plc, a wholly-owned subsidiary of the Company, to make political donations to political (a) parties and/or independent election candidates not exceeding £75,000 in total; and (b) organisations other than political parties not exceeding £25,000 in total, during the period beginning with the date of the 2008 Annual General Meeting – that is 16 July 2008 – and ending at the conclusion of the day on which the 2009 Annual General Meeting is held.

The Company's continuing policy is that no company in the group will make contributions in cash or kind to any political party. However the definitions of political donations used in the new Companies Act 2006 is very much broader than the sense in which these words are ordinarily used.

This is Peter White signing off and saying 'thank you' for listening.