

November 10, 2005

## **SECOND QUARTER AND HALF YEAR RESULTS TO SEPTEMBER 30, 2005**

### **SECOND QUARTER HIGHLIGHTS**

- Revenue of £4,822 million, up 5 per cent
- New wave revenue of £1,439 million, up 39 per cent
- Profit before taxation, specific items<sup>1</sup> and leaver costs of £596 million, up 7 per cent
- Earnings per share before specific items<sup>1</sup> of 5.0 pence, up 4 per cent
- Net debt<sup>2</sup> of £8,133 million, 3 per cent lower than previous year
- Broadband end users of 6.2 million at September 30, 2005, up 89 per cent

### **HALF YEAR HIGHLIGHTS**

- Revenue of £9,605 million, up 5 per cent
- New wave revenue of £2,824 million, up 43 per cent
- Profit before taxation, specific items<sup>1</sup> and leaver costs of £1,113 million, up 3 per cent
- Earnings per share before specific items<sup>1</sup> of 9.5 pence, up 13 per cent
- Interim dividend of 4.3 pence per share, up 10 per cent

The income statement, cash flow statement and balance sheet, drawn up in accordance with IFRS, from which this information is extracted are set out on pages 13 to 19.

<sup>1</sup>Specific items are material one off or unusual items as defined in note 4 on page 23.

<sup>2</sup>Net debt is defined in note 9 on page 26.

## **Chairman's statement**

Sir Christopher Bland, Chairman, commenting on the half year results said:

“The half year results show that we have delivered another good set of financial results and made further progress in transforming the business.

“I am pleased to report that we will be paying an interim dividend of 4.3 pence, up 10 per cent on last year, showing our commitment to improving shareholder returns and confidence about the future.”

## **Chief Executive's statement**

Ben Verwaayen, Chief Executive, commenting on the second quarter results, said:

“The transformation of BT is right on track with the delivery of another successful quarter.

“Revenue has again grown by 5 per cent, with new wave revenues up 39 per cent. Earnings per share\* has now grown for fourteen consecutive quarters and we are encouraged by the trend in underlying EBITDA. Our order book remains strong with networked IT services contract wins again being over £8 billion for the last twelve months. The settlement we have reached with Ofcom in the UK provides a foundation for certainty and clarity which will deliver further benefits to our retail and wholesale customers and shareholders.

“We are delivering value to our customers and shareholders through the transformation of the business.”

\* Before leaver costs and specific items which are material one off or unusual items as defined in note 4 on page 23.

**RESULTS FOR THE SECOND QUARTER AND HALF YEAR  
TO SEPTEMBER 30, 2005**

|                                          | Second quarter |       |                   | Half year |       |                   |
|------------------------------------------|----------------|-------|-------------------|-----------|-------|-------------------|
|                                          | 2005           | 2004  | Better<br>(worse) | 2005      | 2004  | Better<br>(worse) |
|                                          | £m             | £m    | %                 | £m        | £m    | %                 |
| Revenue                                  | 4,822          | 4,602 | 5                 | 9,605     | 9,169 | 5                 |
| EBITDA                                   |                |       |                   |           |       |                   |
| - before specific items and leaver costs | 1,385          | 1,418 | (2)               | 2,748     | 2,807 | (2)               |
| - before specific items                  | 1,348          | 1,410 | (4)               | 2,705     | 2,697 | -                 |
| Profit before taxation                   |                |       |                   |           |       |                   |
| - before specific items and leaver costs | 596            | 557   | 7                 | 1,113     | 1,084 | 3                 |
| - before specific items                  | 559            | 549   | 2                 | 1,070     | 974   | 10                |
| - after specific items                   | 489            | 571   | (14)              | 988       | 982   | 1                 |
| Earnings per share                       |                |       |                   |           |       |                   |
| - before specific items and leaver costs | 5.3p           | 4.8p  | 10                | 9.8p      | 9.3p  | 5                 |
| - before specific items                  | 5.0p           | 4.8p  | 4                 | 9.5p      | 8.4p  | 13                |
| - after specific items                   | 4.4p           | 5.0p  | (12)              | 8.8p      | 8.6p  | 2                 |
| Capital expenditure                      | 694            | 803   | 14                | 1,410     | 1,497 | 6                 |
| Free cash flow                           | 503            | 594   | (15)              | 377       | 751   | (50)              |
| Interim dividend                         |                |       |                   | 4.3p      | 3.9p  | 10                |
| Net debt                                 |                |       |                   | 8,133     | 8,373 | 3                 |

The commentary focuses on the results before specific items and leaver costs. This is consistent with the way that financial performance is measured by management and we believe allows a meaningful analysis to be made of the trading results of the group. Specific items are defined in note 4 on page 23.

The comparative results have been restated to reflect the requirements of IFRS which the group has adopted (see note 1).

The income statement, cash flow statement and balance sheet are provided on pages 13 to 19. A reconciliation of EBITDA to group operating profit is provided on page 28. A reconciliation of net debt is provided on page 27.

## GROUP RESULTS

Revenue was 5 per cent higher at £4,822 million in the quarter with the continued strong growth of new wave revenue more than offsetting the decline in traditional revenue. Underlying revenue, adjusted for the acquisitions of Albacom and Infonet and mobile termination rate reductions, was 2.5 per cent higher than last year. Profit before taxation, specific items and leaver costs increased by 7 per cent to £596 million. Earnings per share before specific items increased by 4 per cent to 5.0 pence.

The strong growth in new wave revenue continued and at £1,439 million was 39 per cent higher than last year. New wave revenue accounted for 30 per cent of the group's revenue compared to 22 per cent in the second quarter of last year. New wave revenue is mainly generated from networked IT services, broadband and mobility. Networked IT services revenue grew by 31 per cent to £918 million, broadband revenue increased by 76 per cent to £350 million and mobility revenue increased by 33 per cent to £65 million. Excluding Albacom and Infonet, the organic growth in new wave revenue was 25 per cent.

Networked IT services contract wins were £0.8 billion in the second quarter. Total orders achieved over the last twelve months were £8.2 billion. BT had 6.2 million wholesale broadband connections at September 30, 2005, an increase of 89 per cent compared to last year. During the second quarter BT announced commercial trials of higher speed services of up to 8Mbit/s which are set to begin at the end of November at 25 exchanges initially with a view to product launch in Spring 2006.

Revenue from the group's traditional businesses declined by 5 per cent (4 per cent excluding the impact of reductions to mobile termination rates and Albacom). This was a continuation of recent trends and reflects regulatory intervention, competition, price reductions and also technological changes that we are using to drive customers from traditional services to new wave services.

Consumer revenue in the second quarter was 5 per cent lower. New wave consumer revenue increased by 76 per cent, driven by the continuing growth of broadband. Traditional consumer revenue declined by 11 per cent year on year (10 per cent lower excluding the impact of reductions to mobile termination rates) reflecting the continued impact of Carrier Pre-Selection (CPS), wholesale line rental (WLR) and broadband substitution.

The underlying 12 month rolling average revenue per consumer household (net of mobile termination charges) of £253 declined by £1 compared to last quarter, with increased broadband volumes almost offsetting lower call revenues. Contracted revenues remained stable at 65 per cent compared to last quarter, 5 percentage points higher than last year.

Revenue from smaller and medium sized (SME) UK businesses declined by 7 per cent (5 per cent excluding the impact of reductions to mobile termination rates). New wave revenue grew by 13 per cent driven by continued growth in broadband and networked IT services. The number of BT Business Plan locations increased by 57 per cent against last year to 507,000 by September 30, 2005, an increase of 4 per cent in the quarter. BT Business Plan continues to grow successfully covering over 50 per cent of BT's SME call revenue.

Major corporate (UK and international) revenue showed strong growth of 15 per cent compared to the second quarter of last year, with strong growth in new wave revenue (34 per cent) more than offsetting the decline in traditional services. Excluding the impact of Albacom and Infonet, new wave revenue grew by 12 per cent. There is a continued migration from traditional voice only services to networked IT services and an increase in mobility and broadband revenue. New wave revenue now represents 55 per cent of all major corporate revenue.

Wholesale (UK and Global Carrier) revenue increased by 11 per cent (12 per cent excluding the impact of reductions to mobile termination rates and Albacom). UK Wholesale new wave revenue increased by 63 per cent to £240 million, mainly driven by broadband and managed services.

Our estimate of market share by volume of fixed to fixed voice minutes is based on our actual minutes, market data provided by Ofcom and an extrapolation of the historical trends. BT's estimated UK consumer market share declined by 1.6 percentage points compared to last quarter to around 59 per cent whilst the estimated business market share remained at around 41 per cent.

Group operating costs before specific items increased by 7 per cent year on year to £4,219 million, including the costs from Albacom and Infonet. Net staff costs before leaver costs increased by £143 million to £1,002 million due mainly to the acquisitions of Albacom and Infonet and additional staff resulting from growth in networked IT services and increased levels of activity in the network. Leaver costs were £37 million in the quarter (£8 million last year). Payments to other telecommunication operators declined by 3 per cent year on year at £939 million with the reduction in mobile termination rates partially offset by the impact of Albacom and Infonet. Other operating costs before specific items increased by £130 million mainly due to increased costs of sales from both organic and inorganic growth in networked IT services. These were partly offset by cost savings from our efficiency programmes. Depreciation and amortisation decreased by 2 per cent year on year to £692 million.

EBITDA before specific items and leaver costs decreased by 2 per cent. This includes the effect of the £15 million profit on property disposals recognised in the prior year. Group operating profit before specific items and leaver costs decreased by 3 per cent to £693 million.

Net finance costs were £100 million, an improvement of £54 million against last year. This includes the effect of a £31 million net gain arising from the fair value movement in, and realised gain arising from, the early redemption of the US dollar 2008 LG Telecom convertible bond. In addition, net finance income associated with the group's defined benefit pension scheme was £15 million higher than the prior year.

Profit before taxation and specific items increased by 2 per cent to £559 million.

The effective tax rate on the profit before specific items was 24.9 per cent (26.0 per cent last year). The effective tax rate reflects tax efficient investment of surplus cash and continued improvements in the tax efficiency within the group.

Earnings per share before specific items increased by 4 per cent to 5.0 pence, and increased by 10 per cent before specific items and leaver costs.

### **Specific items**

A provision of £70 million has been recognised in the quarter relating to the incremental and directly attributable costs to create a new line of business, called Openreach, required under the legal undertakings agreed with Ofcom. There will also be capital expenditure required to deliver equivalent systems and processes, a significant element of which will be absorbed within existing capital programmes.

Earnings per share after specific items were 4.4 pence in the quarter (5.0 pence last year). Specific items are defined in note 4 on page 23.

### **Cash flow and net debt**

Net cash from operating activities in the second quarter amounted to £1,263 million compared to £1,414 million last year. This reduction was primarily a result of the normalisation of tax payments following low tax payments in the prior year.

Cash flows from investing activities were a net cash inflow of £120 million in the second quarter compared to an outflow of £373 million last year. This reflects the cash inflow upon maturity of certain short term investments, the majority of which was used to fund the dividend payment of £540 million made in the quarter. The net cash outflow from capital expenditure, net of disposal proceeds, amounted to £671 million in the quarter compared to £726 million last year.

Cash flows from financing activities were a net outflow of £785 million in the second quarter compared to £771 million last year.

Free cash flow was a net inflow of £503 million in the second quarter (£594 million last year). The share buyback programme continued with the repurchase of 45 million shares for £102 million in the quarter. Net debt was £8,133 million at September 30, 2005, £240 million below the level at September 30, 2004. Free cash flow and net debt are defined in notes 8 and 9 on pages 25 to 27.

### **Pensions**

The IAS 19 pension obligation position at September 30, 2005 was a deficit of £2.6 billion, net of tax, being a reduction of £0.8 billion since March 31, 2005.

### **21<sup>st</sup> Century Network**

BT's work on preparing for the implementation of the 21st Century Network progressed during the quarter. BT is working on concluding the contractual agreements with eight preferred suppliers to build a converged core network. BT is auditing sites nationally, and is working to put in place a world class inventory management system to prepare for the installation of equipment from preferred suppliers. This process has already been completed in the Cardiff area, which will see the first live implementation of 21CN in the second half of 2006. The plan for national rollout is being discussed with industry through the communication forum, Consult21, and agreement is expected around the end of the current financial year. Trials for delivery of services over 21CN are continuing using equipment from BT's preferred suppliers.

### **Telecommunications Strategic Review**

During the second quarter a final settlement was reached with Ofcom following the conclusion of the Telecommunications Strategic Review. Their acceptance of legally binding undertakings offered by BT provides a foundation for certainty and clarity which will deliver further benefits to retail and wholesale customers and shareholders.

As part of the settlement BT has agreed to create a new line of business called Openreach. This line of business will ensure all service providers have transparent and equal access to the nationwide local BT network.

**Shareholder distributions**

An interim dividend of 4.3 pence per share, an increase of 10 per cent on last year, will be paid on February 13, 2006 to shareholders on the register on December 30, 2005. The ex dividend date is December 28, 2005. In the first half year 55 million shares were repurchased for £123 million under the group's share buyback programme.

**Prospects**

The strategy is working well and we continue to deliver our key strategic goals. Our traditional business continues to operate in what remains a challenging environment. Our new wave businesses show strong growth both in the UK and internationally. We expect to continue to see the benefits from our investment in new wave activities and cost transformation plans.

**Line of business results**

We reviewed our internal trading arrangements and with effect from April 1, 2005 have made changes to simplify our internal trading and drive synergies. We have restated the comparative line of business results to assist readers in understanding the year on year performance. There is no change to the overall group reported results.

The main changes are firstly, the transfer of BT's UK Major Business operations into BT Global Services from BT Retail. Secondly, Field Services have moved from BT Retail to BT Wholesale, in anticipation of the creation of Openreach.

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The half year report, which contains the independent review report of the auditors, will be advertised in The Times on November 11, 2005.

The third quarter results are expected to be announced on February 9, 2006.

**BT Retail**

|                                         | Second quarter ended September 30 |              |                |     | Half year ended September 30 |              |
|-----------------------------------------|-----------------------------------|--------------|----------------|-----|------------------------------|--------------|
|                                         | 2005                              | 2004*        | Better (worse) |     | 2005                         | 2004*        |
|                                         | £m                                | £m           | £m             | %   | £m                           | £m           |
| Revenue                                 | <u>2,136</u>                      | <u>2,221</u> | (85)           | (4) | <u>4,255</u>                 | <u>4,420</u> |
| Gross margin                            | 586                               | 579          | 7              | 1   | 1,149                        | 1,161        |
| Sales, general and administration costs | <u>380</u>                        | <u>388</u>   | 8              | 2   | <u>770</u>                   | <u>787</u>   |
| EBITDA                                  | 206                               | 191          | 15             | 8   | 379                          | 374          |
| Depreciation and amortisation           | <u>39</u>                         | <u>38</u>    | (1)            | (3) | <u>73</u>                    | <u>76</u>    |
| Operating profit                        | <u>167</u>                        | <u>153</u>   | 14             | 9   | <u>306</u>                   | <u>298</u>   |
| EBITDA before leaver costs              | <u>208</u>                        | <u>193</u>   | 15             | 8   | <u>384</u>                   | <u>382</u>   |
| Operating profit before leaver costs    | <u>169</u>                        | <u>155</u>   | 14             | 9   | <u>311</u>                   | <u>306</u>   |
| Capital expenditure                     | <u>33</u>                         | <u>41</u>    | 8              | 20  | <u>68</u>                    | <u>72</u>    |

\*Restated to reflect changes in intra-group trading arrangements.

BT Retail's EBITDA was 8 per cent higher than last year, reversing the trend of recent quarters. Gross margin increased by 1.3 percentage points, and coupled with a reduction in SG&A costs, more than compensated for the 4 per cent decline in revenues (3 per cent excluding the impact of reductions to mobile termination rates).

New wave revenue grew by 41 per cent but was more than offset by the traditional revenue decline of 9 per cent. New wave revenue accounted for 15 per cent of total revenue in the quarter, up from 10 per cent last year.

Revenue from traditional services was 9 per cent lower than last year (8 per cent excluding the impact of reductions to mobile termination rates). The reduction includes the effects of continued high levels of migration to new wave services such as broadband, which is reflected in a fall of over 40 per cent in dial up internet minutes and a reduction in ISDN lines. In addition, there has been an estimated 3 per cent decline in the overall fixed to fixed calls market and a reduction in market share from competitive pressure.

BT Privacy, a service to address the problem of unwanted calls by giving customers greater control over the calls they receive, was launched on 1<sup>st</sup> July with more than 1.8 million customers already registered.

Broadband revenue grew by 57 per cent to £179 million. The growth of broadband continues with 2,111,000 BT Retail connections at September 30, 2005, an increase of 9 per cent in the quarter. Net additions of 171,000 resulted in a 27 per cent share of the BT

Wholesale broadband DSL additions in the quarter. Our programme to upgrade customers to high speed services at no extra cost continues with a further 500,000 business and consumer customers upgraded to speeds of up to 2Mbit/s in the quarter. BT Retail has now upgraded in excess of one million customers in total.

Revenue from mobility services increased by 65 per cent year on year to £38 million. In June we launched BT Fusion, the world's first seamless combined fixed and mobile communications service on a single handset. Over 20,000 registrations have been received on [www.btfusion.bt.com](http://www.btfusion.bt.com) and sales activity to this group commenced at the end of September. We will shortly offer this service to BT Broadband customers followed by a more general marketing campaign. Additional handset choices will be available next year.

Revenue for BT Directories increased by 50 per cent to £24 million as the take up of full colour adverts and Phonebook Online grows. BT Conferencing increased revenues by over 20 per cent, and is Europe's number one conferencing business.

Overall the gross margin percentage increased by 1.3 percentage points due to greater network efficiency and maturity of broadband products.

Cost transformation programmes contributed to SG&A savings of £8 million. Overall these results led to an improvement in operating profit in the quarter to £167 million which is 9 per cent higher than last year.

**BT Wholesale**

|                                      | Second quarter ended September 30 |              |                |     | Half year ended September 30 |              |
|--------------------------------------|-----------------------------------|--------------|----------------|-----|------------------------------|--------------|
|                                      | 2005                              | 2004*        | Better (worse) |     | 2005                         | 2004*        |
|                                      | £m                                | £m           | £m             | %   | £m                           | £m           |
| External revenue                     | 1,024                             | 952          | 72             | 8   | 2,045                        | 1,893        |
| Internal revenue                     | <u>1,254</u>                      | <u>1,311</u> | (57)           | (4) | <u>2,537</u>                 | <u>2,643</u> |
| Revenue                              | 2,278                             | 2,263        | 15             | 1   | 4,582                        | 4,536        |
| Variable cost of sales               | <u>527</u>                        | <u>556</u>   | 29             | 5   | <u>1,083</u>                 | <u>1,109</u> |
| Gross variable profit                | 1,751                             | 1,707        | 44             | 3   | 3,499                        | 3,427        |
| Network and SG&A costs               | <u>789</u>                        | <u>742</u>   | (47)           | (6) | <u>1,544</u>                 | <u>1,531</u> |
| EBITDA                               | 962                               | 965          | (3)            | -   | 1,955                        | 1,896        |
| Depreciation and amortisation        | <u>462</u>                        | <u>477</u>   | 15             | 3   | <u>919</u>                   | <u>956</u>   |
| Operating profit                     | <u>500</u>                        | <u>488</u>   | 12             | 2   | <u>1,036</u>                 | <u>940</u>   |
| EBITDA before leaver costs           | <u>968</u>                        | <u>965</u>   | 3              | -   | <u>1,961</u>                 | <u>1,954</u> |
| Operating profit before leaver costs | <u>506</u>                        | <u>488</u>   | 18             | 4   | <u>1,042</u>                 | <u>998</u>   |
| Capital expenditure                  | <u>444</u>                        | <u>548</u>   | 104            | 19  | <u>931</u>                   | <u>1,025</u> |

\*Restated to reflect changes in intra-group trading arrangements.

BT Wholesale revenue of £2,278 million increased by 1 per cent driven by external revenue growth of 8 per cent (14 per cent excluding the impact of regulatory reductions to mobile termination rates). The growth continues to be driven by new wave services, mainly broadband and managed services, increasing by 63 per cent to £240 million. Revenue from new wave services now accounts for more than 23 per cent of external revenue compared to 15 per cent last year.

Internal revenue has declined by 4 per cent to £1,254 million due to the impact of lower volumes of calls and lines and lower regulatory prices being reflected in internal charges. This was partially offset by strong growth from internal broadband revenue.

Gross variable profit of £1,751 million is 3 per cent higher than last year reflecting overall volume increases and a favourable change in sales mix with broadband growth more than offsetting the decline in traditional products. This has been offset by higher network and SG&A costs, reflecting benefits last year from improved working capital management and increased broadband activity levels this year, which has resulted in EBITDA remaining flat.

Lower depreciation, partially offset by higher leaver payments, has resulted in an operating profit increase of 2 per cent.

Capital expenditure in the quarter was 19 per cent lower than last year. Capital expenditure continues to be focused on supporting the growth in broadband and the transformation of the network. Investment in legacy network technologies is lower than last year.

### BT Global Services

|                                      | Second quarter ended September 30 |       |                |      | Half year ended September 30 |       |
|--------------------------------------|-----------------------------------|-------|----------------|------|------------------------------|-------|
|                                      | 2005                              | 2004* | Better (worse) |      | 2005                         | 2004* |
|                                      | £m                                | £m    | £m             | %    | £m                           | £m    |
| Revenue                              | 2,108                             | 1,823 | 285            | 16   | 4,180                        | 3,583 |
| EBITDA                               | 215                               | 228   | (13)           | (6)  | 448                          | 421   |
| Operating profit                     | 57                                | 90    | (33)           | (37) | 138                          | 152   |
| EBITDA before leaver costs           | 237                               | 233   | 4              | 2    | 472                          | 459   |
| Operating profit before leaver costs | 79                                | 95    | (16)           | (17) | 162                          | 190   |
| Capital expenditure                  | 171                               | 161   | (10)           | (6)  | 313                          | 305   |

\*Restated to reflect changes in intra-group trading arrangements.

BT Global Services revenue for the quarter rose by 16 per cent to £2,108 million. Underlying growth, excluding Albacom and Infonet, was 5 per cent. Corporate revenues grew by 15 per cent supported by Multi Protocol Label Switching (MPLS) with a year on year increase of 35 per cent. Carrier revenue in underlying terms was flat but was boosted by additional revenues from Albacom. Order intake remained strong with networked IT services contract orders of £0.8 billion taken in the quarter resulting in orders of £8.2 billion over the last twelve months.

Progress towards BT Global Services' goal of becoming the international business partner and supplier of choice was evidenced by the award of Best Global Carrier at the recent World Communications Awards, while the first of a new generation of products developed by BT Infonet, MobileXpress, came on line.

EBITDA before leaver costs improved by 2 per cent year on year. Growth in new wave profitability, including the effect of acquisitions, more than offset a decline of approximately £20 million in UK traditional products, including migration to IPVPNs sold to UK corporates and reductions in dial IP due to broadband substitution. Higher depreciation costs in the acquisitions and higher leaver costs of £17 million, following the acceleration of the early leaver programme, led to a fall in operating profit of £33 million.

Capital expenditure in the quarter at £171 million increased by £10 million due to the increased spend from Albacom and Infonet.

**GROUP INCOME STATEMENT**  
**for the three months ended September 30, 2005**

| (unaudited)                                                | Notes | Before<br>specific items<br>£m | Specific items<br>(note 4)<br>£m | Total<br>£m |
|------------------------------------------------------------|-------|--------------------------------|----------------------------------|-------------|
| <b>Revenue</b>                                             | 2     | 4,822                          | -                                | 4,822       |
| Other operating income                                     |       | 53                             | -                                | 53          |
| Operating costs                                            | 3     | (4,219)                        | (70)                             | (4,289)     |
| <b>Operating profit (loss)</b>                             | 2     | 656                            | (70)                             | 586         |
| Finance costs                                              |       | (676)                          | -                                | (676)       |
| Finance income                                             |       | 576                            | -                                | 576         |
| Net finance costs                                          | 5     | (100)                          | -                                | (100)       |
| Share of post tax profits of associates and joint ventures |       | 3                              | -                                | 3           |
| <b>Profit (loss) before taxation</b>                       |       | 559                            | (70)                             | 489         |
| <b>Taxation</b>                                            |       | (139)                          | 21                               | (118)       |
| <b>Profit (loss) for the period</b>                        |       | 420                            | (49)                             | 371         |
| Attributable to:                                           |       |                                |                                  |             |
| Equity shareholders                                        |       | 420                            | (49)                             | 371         |
| Minority interests                                         |       | -                              | -                                | -           |
| <b>Earnings per share</b>                                  | 7     |                                |                                  |             |
| - basic                                                    |       | 5.0p                           |                                  | 4.4p        |
| - diluted                                                  |       | 4.9p                           |                                  | 4.3p        |

**GROUP INCOME STATEMENT**  
**for the three months ended September 30, 2004**

| (unaudited)                                               | Notes | Before specific<br>items<br>£m | Specific items<br>(note 4)<br>£m | Total<br>£m |
|-----------------------------------------------------------|-------|--------------------------------|----------------------------------|-------------|
| <b>Revenue</b>                                            | 2     | 4,602                          | -                                | 4,602       |
| Other operating income                                    |       | 58                             | -                                | 58          |
| Operating costs                                           | 3     | (3,954)                        | (3)                              | (3,957)     |
| Profit on sale of non current asset investments           |       | -                              | 25                               | 25          |
| <b>Operating profit</b>                                   | 2     | 706                            | 22                               | 728         |
| Finance costs                                             |       | (700)                          | -                                | (700)       |
| Finance income                                            |       | 546                            | -                                | 546         |
| Net finance costs                                         | 5     | (154)                          | -                                | (154)       |
| Share of post tax losses of associates and joint ventures |       | (3)                            | -                                | (3)         |
| <b>Profit before taxation</b>                             |       | 549                            | 22                               | 571         |
| <b>Taxation</b>                                           |       | (143)                          | 1                                | (142)       |
| <b>Profit for the period</b>                              |       | 406                            | 23                               | 429         |
| Attributable to:                                          |       |                                |                                  |             |
| Equity shareholders                                       |       | 407                            | 23                               | 430         |
| Minority interests                                        |       | (1)                            | -                                | (1)         |
| <b>Earnings per share</b>                                 | 7     |                                |                                  |             |
| - <b>basic</b>                                            |       | 4.8p                           |                                  | 5.0p        |
| - <b>diluted</b>                                          |       | 4.7p                           |                                  | 5.0p        |

**GROUP INCOME STATEMENT**  
**for the six months ended September 30, 2005**

| (unaudited)                                                | Notes | Before specific<br>items<br>£m | Specific items<br>(note 4)<br>£m | Total<br>£m    |
|------------------------------------------------------------|-------|--------------------------------|----------------------------------|----------------|
| <b>Revenue</b>                                             | 2     | 9,605                          | -                                | 9,605          |
| Other operating income                                     |       | 95                             | -                                | 95             |
| Operating costs                                            | 3     | <u>(8,396)</u>                 | <u>(82)</u>                      | <u>(8,478)</u> |
| <b>Operating profit (loss)</b>                             | 2     | 1,304                          | (82)                             | 1,222          |
| Finance costs                                              |       | (1,392)                        | -                                | (1,392)        |
| Finance income                                             |       | <u>1,150</u>                   | <u>-</u>                         | <u>1,150</u>   |
| Net finance costs                                          | 5     | (242)                          | -                                | (242)          |
| Share of post tax profits of associates and joint ventures |       | <u>8</u>                       | <u>-</u>                         | <u>8</u>       |
| <b>Profit (loss) before taxation</b>                       |       | 1,070                          | (82)                             | 988            |
| <b>Taxation</b>                                            |       | <u>(268)</u>                   | <u>25</u>                        | <u>(243)</u>   |
| <b>Profit (loss) for the period</b>                        |       | <u>802</u>                     | <u>(57)</u>                      | <u>745</u>     |
| Attributable to:                                           |       |                                |                                  |                |
| Equity shareholders                                        |       | 802                            | (57)                             | 745            |
| Minority interests                                         |       | <u>-</u>                       | <u>-</u>                         | <u>-</u>       |
| <b>Earnings per share</b>                                  | 7     |                                |                                  |                |
| - basic                                                    |       | <u>9.5p</u>                    |                                  | <u>8.8p</u>    |
| - diluted                                                  |       | <u>9.3p</u>                    |                                  | <u>8.7p</u>    |

**GROUP INCOME STATEMENT**  
**for the six months ended September 30, 2004**

| (unaudited)                                               | Notes | Before specific<br>items<br>£m | Specific items<br>(note 4)<br>£m | Total<br>£m  |
|-----------------------------------------------------------|-------|--------------------------------|----------------------------------|--------------|
| <b>Revenue</b>                                            | 2     | 9,169                          | -                                | 9,169        |
| Other operating income                                    |       | 99                             | -                                | 99           |
| Operating costs                                           | 3     | (7,975)                        | (20)                             | (7,995)      |
| Profit on sale of non current asset investments           |       | <u>-</u>                       | <u>28</u>                        | <u>28</u>    |
| <b>Operating profit</b>                                   | 2     | 1,293                          | 8                                | 1,301        |
| Finance costs                                             |       | (1,392)                        | -                                | (1,392)      |
| Finance income                                            |       | <u>1,083</u>                   | <u>-</u>                         | <u>1,083</u> |
| Net finance costs                                         | 5     | (309)                          | -                                | (309)        |
| Share of post tax losses of associates and joint ventures |       | <u>(10)</u>                    | <u>-</u>                         | <u>(10)</u>  |
| <b>Profit before taxation</b>                             |       | 974                            | 8                                | 982          |
| <b>Taxation</b>                                           |       | (256)                          | <u>5</u>                         | (251)        |
| <b>Profit for the period</b>                              |       | <u>718</u>                     | <u>13</u>                        | <u>731</u>   |
| Attributable to:                                          |       |                                |                                  |              |
| Equity shareholders                                       |       | 719                            | 13                               | 732          |
| Minority interests                                        |       | <u>(1)</u>                     | <u>-</u>                         | <u>(1)</u>   |
| <b>Earnings per share</b>                                 | 7     |                                |                                  |              |
| - <b>basic</b>                                            |       | <u>8.4p</u>                    |                                  | <u>8.6p</u>  |
| - <b>diluted</b>                                          |       | <u>8.4p</u>                    |                                  | <u>8.5p</u>  |

**GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**for the six months ended September 30, 2005**

| (unaudited)                                                 | Half year<br>ended September 30 |              |
|-------------------------------------------------------------|---------------------------------|--------------|
|                                                             | 2005<br>£m                      | 2004<br>£m   |
| <b>Profit for the period</b>                                | <u>745</u>                      | <u>731</u>   |
| Actuarial gains (losses) on defined benefit pension schemes | 1,090                           | (198)        |
| Net gains on revaluation of available-for-sale investments  | 1                               | -            |
| Net losses on cash flow hedges                              | (7)                             | -            |
| Exchange differences on translation of foreign operations   | (4)                             | 16           |
| Tax on items taken directly to equity                       | <u>(325)</u>                    | <u>59</u>    |
| <b>Net gains (losses) recognised directly in equity</b>     | <u>755</u>                      | <u>(123)</u> |
| <b>Total recognised income for the period</b>               | <u>1,500</u>                    | <u>608</u>   |
| Effect of adoption of IAS 32 and IAS 39                     | <u>(337)</u>                    | <u>-</u>     |
| <b>Total recognised income</b>                              | <u>1,163</u>                    | <u>608</u>   |
| Attributable to:                                            |                                 |              |
| Equity shareholders                                         | 1,163                           | 608          |
| Minority interests                                          | <u>-</u>                        | <u>-</u>     |

**GROUP CASH FLOW STATEMENT**  
**for the three months and six months ended September 30, 2005**

| (unaudited)                                                                                 | Second quarter<br>ended September 30 |              | Half year<br>ended September 30 |              |
|---------------------------------------------------------------------------------------------|--------------------------------------|--------------|---------------------------------|--------------|
|                                                                                             | 2005<br>£m                           | 2004<br>£m   | 2005<br>£m                      | 2004<br>£m   |
| <b>Cash flow from operating activities</b>                                                  |                                      |              |                                 |              |
| Cash generated from operations (note 8 (a))                                                 | 1,374                                | 1,415        | 2,346                           | 2,623        |
| Income taxes paid                                                                           | <u>(111)</u>                         | <u>(1)</u>   | <u>(242)</u>                    | <u>(42)</u>  |
| <b>Net cash inflow from operating activities</b>                                            | 1,263                                | 1,414        | 2,104                           | 2,581        |
| <b>Cash flow from investing activities</b>                                                  |                                      |              |                                 |              |
| Net sale (acquisition) of subsidiaries, associates<br>and joint ventures                    | -                                    | 13           | (88)                            | 11           |
| Net purchase of property, plant, equipment<br>and software                                  | (671)                                | (726)        | (1,357)                         | (1,455)      |
| Interest received                                                                           | 59                                   | 48           | 96                              | 103          |
| Net sale of short term investments and non<br>current asset investments                     | <u>732</u>                           | <u>292</u>   | <u>582</u>                      | <u>278</u>   |
| <b>Net cash received (used) in investing activities</b>                                     | 120                                  | (373)        | (767)                           | (1,063)      |
| <b>Cash flows from financing activities</b>                                                 |                                      |              |                                 |              |
| Repurchase of ordinary share capital                                                        | (88)                                 | (68)         | (109)                           | (99)         |
| Net repayments of borrowings                                                                | (10)                                 | (104)        | (24)                            | (276)        |
| Interest paid                                                                               | (147)                                | (145)        | (465)                           | (504)        |
| Equity dividends paid                                                                       | <u>(540)</u>                         | <u>(454)</u> | <u>(540)</u>                    | <u>(454)</u> |
| <b>Net cash used in financing activities</b>                                                | (785)                                | (771)        | (1,138)                         | (1,333)      |
| Effects of exchange rate changes                                                            | <u>(6)</u>                           | <u>28</u>    | <u>23</u>                       | <u>2</u>     |
| <b>Net increase in cash and cash<br/>equivalents</b>                                        | <u>592</u>                           | <u>298</u>   | <u>222</u>                      | <u>187</u>   |
| Cash and cash equivalents at beginning of<br>period                                         | 940                                  | 894          | 1,310                           | 1,005        |
| <b>Cash and cash equivalents, net of bank<br/>overdrafts, at end of period (note 8 (c))</b> | <u>1,532</u>                         | <u>1,192</u> | <u>1,532</u>                    | <u>1,192</u> |
| Free cash flow (note 8 (b))                                                                 | <u>503</u>                           | <u>594</u>   | <u>377</u>                      | <u>751</u>   |
| Increase (decrease) in net debt from cash flows<br>(note 9 (b))                             | <u>125</u>                           | <u>(85)</u>  | <u>360</u>                      | <u>(209)</u> |

**GROUP BALANCE SHEET**  
**at September 30, 2005**

|                                                   | September 30<br>2005<br>£m | September 30<br>2004<br>£m | March 31<br>2005<br>£m |
|---------------------------------------------------|----------------------------|----------------------------|------------------------|
| (unaudited)                                       |                            |                            |                        |
| <b>Non current assets</b>                         |                            |                            |                        |
| Goodwill and other intangible assets              | 1,385                      | 726                        | 1,259                  |
| Property, plant and equipment                     | 15,386                     | 15,126                     | 15,386                 |
| Other non current assets                          | 101                        | 542                        | 133                    |
| Deferred tax assets                               | <u>1,105</u>               | <u>1,604</u>               | <u>1,434</u>           |
|                                                   | <u>17,977</u>              | <u>17,998</u>              | <u>18,212</u>          |
| <b>Current assets</b>                             |                            |                            |                        |
| Inventories                                       | 126                        | 118                        | 106                    |
| Trade and other receivables                       | 4,060                      | 4,261                      | 4,269                  |
| Other financial assets                            | 3,217                      | 3,972                      | 3,634                  |
| Cash and cash equivalents                         | <u>1,727</u>               | <u>1,193</u>               | <u>1,312</u>           |
|                                                   | <u>9,130</u>               | <u>9,544</u>               | <u>9,321</u>           |
| <b>Total assets</b>                               | 27,107                     | 27,542                     | 27,533                 |
| <b>Current liabilities</b>                        |                            |                            |                        |
| Loans and other borrowings                        | 4,667                      | 972                        | 4,261                  |
| Trade and other payables                          | 5,552                      | 6,379                      | 6,772                  |
| Other current liabilities                         | <u>1,377</u>               | <u>747</u>                 | <u>1,080</u>           |
|                                                   | <u>11,596</u>              | <u>8,098</u>               | <u>12,113</u>          |
| <b>Total assets less current liabilities</b>      | <u>15,511</u>              | <u>19,444</u>              | <u>15,420</u>          |
| <b>Non current liabilities</b>                    |                            |                            |                        |
| Loans and other borrowings                        | 8,171                      | 11,934                     | 7,744                  |
| Deferred tax liabilities                          | 1,581                      | 1,749                      | 1,715                  |
| Retirement benefit obligations                    | 3,682                      | 5,345                      | 4,781                  |
| Other non current liabilities                     | <u>1,449</u>               | <u>1,349</u>               | <u>1,085</u>           |
|                                                   | <u>14,883</u>              | <u>20,377</u>              | <u>15,325</u>          |
| <b>Capital and reserves</b>                       |                            |                            |                        |
| Called up share capital                           | 432                        | 432                        | 432                    |
| Reserves                                          | <u>147</u>                 | <u>(1,413)</u>             | <u>(387)</u>           |
| <b>Total equity shareholders' funds (deficit)</b> | 579                        | (981)                      | 45                     |
| Minority interests                                | <u>49</u>                  | <u>48</u>                  | <u>50</u>              |
| <b>Total equity</b>                               | <u>628</u>                 | <u>(933)</u>               | <u>95</u>              |
|                                                   | <u>15,511</u>              | <u>19,444</u>              | <u>15,420</u>          |

**NOTES (unaudited)**

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**1 Accounting policies and basis of preparation**

These primary statements and selected notes comprise the unaudited interim consolidated financial results of BT Group plc (“the group”) for the quarter and six months ended September 30, 2005 and 2004, respectively. These interim financial results do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended March 31, 2005 were approved by the Board of Directors on May 18, 2005 and published on June 1, 2005. The auditor’s report on those accounts was unqualified and did not contain any statement under Section 237 of the Companies Act 1985.

Previously the group prepared its audited annual financial statements and unaudited quarterly results under UK Generally Accepted Accounting Principles (UK GAAP). From April 1, 2005 the group is required to present its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU). On July 28, 2005, the group issued its first quarter results which also contained information on the impact of IFRS on comparative periods in advance of the publication of the group’s annual results under IFRS. Details of the group’s principal accounting policies under IFRS were also included. The financial information set out in this interim statement has been prepared in accordance with those accounting policies and the directors intend to apply those policies in the preparation of the consolidated financial statements for the year ended March 31, 2006.

Standards currently in issue and adopted by the EU are subject to interpretation issued from time to time, by the International Financial Reporting Interpretations Committee (IFRIC). Further standards may be issued by the International Accounting Standards Board that will be adopted for financial years beginning on April 1, 2005. Furthermore, due to a number of new and revised Standards included within the body of the Standards that comprise IFRS, there is not yet a significant body of established practice on which to draw in forming opinions regarding interpretation and application. Accordingly, practice is continuing to evolve. At this preliminary stage, therefore, the full financial effect of reporting under IFRS as it will be applied and reported on in the group’s first IFRS financial statements for the year ended March 31, 2006 may be subject to change.

These interim financial results have been prepared under the historical cost convention, except in respect of certain financial assets and liabilities. As permitted, the group has chosen not to adopt IAS 34 “Interim Financial Statements”, and therefore these interim financial results are not in full compliance with IFRS.

## 2 Results of businesses

### (a) Operating results

|                               | External<br>revenue<br>£m | Internal<br>revenue<br>£m | Group<br>revenue<br>£m | Group<br>operating<br>profit (loss)<br>(ii)<br>£m | EBITDA<br>(ii)<br>£m |
|-------------------------------|---------------------------|---------------------------|------------------------|---------------------------------------------------|----------------------|
| <i>Second quarter ended</i>   |                           |                           |                        |                                                   |                      |
| <i>September 30, 2005</i>     |                           |                           |                        |                                                   |                      |
| BT Retail                     | 2,054                     | 82                        | 2,136                  | 167                                               | 206                  |
| BT Wholesale                  | 1,024                     | 1,254                     | 2,278                  | 500                                               | 962                  |
| BT Global Services            | 1,740                     | 368                       | 2,108                  | 57                                                | 215                  |
| Other                         | 4                         | -                         | 4                      | (68)                                              | (35)                 |
| Intra-group items (i)         | -                         | (1,704)                   | (1,704)                | -                                                 | -                    |
| <b>Total</b>                  | <u>4,822</u>              | <u>-</u>                  | <u>4,822</u>           | <u>656</u>                                        | <u>1,348</u>         |
| <i>Second quarter ended</i>   |                           |                           |                        |                                                   |                      |
| <i>September 30, 2004</i>     |                           |                           |                        |                                                   |                      |
| <i>(restated – see below)</i> |                           |                           |                        |                                                   |                      |
| BT Retail                     | 2,153                     | 68                        | 2,221                  | 153                                               | 191                  |
| BT Wholesale                  | 952                       | 1,311                     | 2,263                  | 488                                               | 965                  |
| BT Global Services            | 1,491                     | 332                       | 1,823                  | 90                                                | 228                  |
| Other                         | 6                         | -                         | 6                      | (25)                                              | 26                   |
| Intra-group items (i)         | -                         | (1,711)                   | (1,711)                | -                                                 | -                    |
| <b>Total</b>                  | <u>4,602</u>              | <u>-</u>                  | <u>4,602</u>           | <u>706</u>                                        | <u>1,410</u>         |
| <i>Half year ended</i>        |                           |                           |                        |                                                   |                      |
| <i>September 30, 2005</i>     |                           |                           |                        |                                                   |                      |
| BT Retail                     | 4,094                     | 161                       | 4,255                  | 306                                               | 379                  |
| BT Wholesale                  | 2,045                     | 2,537                     | 4,582                  | 1,036                                             | 1,955                |
| BT Global Services            | 3,456                     | 724                       | 4,180                  | 138                                               | 448                  |
| Other                         | 10                        | -                         | 10                     | (176)                                             | (77)                 |
| Intra-group items (i)         | -                         | (3,422)                   | (3,422)                | -                                                 | -                    |
| <b>Total</b>                  | <u>9,605</u>              | <u>-</u>                  | <u>9,605</u>           | <u>1,304</u>                                      | <u>2,705</u>         |
| <i>Half year ended</i>        |                           |                           |                        |                                                   |                      |
| <i>September 30, 2004</i>     |                           |                           |                        |                                                   |                      |
| <i>(restated – see below)</i> |                           |                           |                        |                                                   |                      |
| BT Retail                     | 4,299                     | 121                       | 4,420                  | 298                                               | 374                  |
| BT Wholesale                  | 1,893                     | 2,643                     | 4,536                  | 940                                               | 1,896                |
| BT Global Services            | 2,964                     | 619                       | 3,583                  | 152                                               | 421                  |
| Other                         | 13                        | -                         | 13                     | (97)                                              | 6                    |
| Intra-group items (i)         | -                         | (3,383)                   | (3,383)                | -                                                 | -                    |
| <b>Total</b>                  | <u>9,169</u>              | <u>-</u>                  | <u>9,169</u>           | <u>1,293</u>                                      | <u>2,697</u>         |

- (i) Elimination of intra-group revenue between businesses, which is included in the total revenue of the originating business.
- (ii) Before specific items.

We have reviewed our internal trading arrangements and with effect from April 1, 2005 have made changes to simplify our internal trading and drive synergies. We have restated the comparative line of business results to assist readers in understanding the year on year performance. There is no change to the overall group reported results.

## 2 Results of businesses *continued*

### (b) Revenue analysis

|                   | Second quarter ended<br>September 30 |              |                        |      | Half year ended<br>September 30 |              |
|-------------------|--------------------------------------|--------------|------------------------|------|---------------------------------|--------------|
|                   | 2005<br>£m                           | 2004<br>£m   | Better (worse)<br>£m % |      | 2005<br>£m                      | 2004<br>£m   |
| Traditional       | 3,383                                | 3,569        | (186)                  | (5)  | 6,781                           | 7,200        |
| New wave          | <u>1,439</u>                         | <u>1,033</u> | 406                    | 39   | <u>2,824</u>                    | <u>1,969</u> |
|                   | <u>4,822</u>                         | <u>4,602</u> | 220                    | 5    | <u>9,605</u>                    | <u>9,169</u> |
| Consumer          | 1,345                                | 1,421        | (76)                   | (5)  | 2,679                           | 2,846        |
| Business          | 588                                  | 629          | (41)                   | (7)  | 1,179                           | 1,252        |
| Major Corporate   | 1,666                                | 1,444        | 222                    | 15   | 3,296                           | 2,868        |
| Wholesale/Carrier | 1,219                                | 1,102        | 117                    | 11   | 2,441                           | 2,190        |
| Other             | <u>4</u>                             | <u>6</u>     | (2)                    | (33) | <u>10</u>                       | <u>13</u>    |
|                   | <u>4,822</u>                         | <u>4,602</u> | 220                    | 5    | <u>9,605</u>                    | <u>9,169</u> |

### (c) New wave revenue analysis

|                       | Second quarter ended<br>September 30 |              |                        |    | Half year ended<br>September 30 |              |
|-----------------------|--------------------------------------|--------------|------------------------|----|---------------------------------|--------------|
|                       | 2005<br>£m                           | 2004<br>£m   | Better (worse)<br>£m % |    | 2005<br>£m                      | 2004<br>£m   |
| Networked IT services | 918                                  | 699          | 219                    | 31 | 1,822                           | 1,333        |
| Broadband             | 350                                  | 199          | 151                    | 76 | 664                             | 385          |
| Mobility              | 65                                   | 49           | 16                     | 33 | 126                             | 92           |
| Other                 | <u>106</u>                           | <u>86</u>    | 20                     | 23 | <u>212</u>                      | <u>159</u>   |
|                       | <u>1,439</u>                         | <u>1,033</u> | 406                    | 39 | <u>2,824</u>                    | <u>1,969</u> |

### (d) Capital expenditure<sup>(1)</sup> on property, plant, equipment, software and motor vehicles:

|                                                  | Second quarter ended<br>September 30 |            |                        |     | Half year ended<br>September 30 |              |
|--------------------------------------------------|--------------------------------------|------------|------------------------|-----|---------------------------------|--------------|
|                                                  | 2005<br>£m                           | 2004<br>£m | Better (worse)<br>£m % |     | 2005<br>£m                      | 2004<br>£m   |
| BT Retail                                        | 33                                   | 41         | 8                      | 20  | 68                              | 72           |
| BT Wholesale                                     |                                      |            |                        |     |                                 |              |
| Access                                           | 228                                  | 274        | 46                     | 17  | 485                             | 543          |
| Switch                                           | 8                                    | 25         | 17                     | 68  | 18                              | 55           |
| Transmission                                     | 52                                   | 50         | (2)                    | (4) | 98                              | 95           |
| Products/systems support                         | <u>156</u>                           | <u>199</u> | 43                     | 22  | <u>330</u>                      | <u>332</u>   |
|                                                  | 444                                  | 548        | 104                    | 19  | 931                             | 1,025        |
| BT Global Services                               | 171                                  | 161        | (10)                   | (6) | 313                             | 305          |
| Other (including fleet<br>vehicles and property) | <u>46</u>                            | <u>53</u>  | 7                      | 13  | <u>98</u>                       | <u>95</u>    |
| <b>Total</b>                                     | <u>694</u>                           | <u>803</u> | 109                    | 14  | <u>1,410</u>                    | <u>1,497</u> |

<sup>(1)</sup>Capital expenditure, which is recognised on an accruals basis, includes computer software which is classified within intangible assets.

### 3 Operating costs

|                                         | Second quarter ended<br>September 30 |              | Half year ended<br>September 30 |              |
|-----------------------------------------|--------------------------------------|--------------|---------------------------------|--------------|
|                                         | 2005                                 | 2004         | 2005                            | 2004         |
|                                         | £m                                   | £m           | £m                              | £m           |
| Net staff costs before leaver costs     | 1,002                                | 859          | 1,967                           | 1,757        |
| Leaver costs                            | <u>37</u>                            | <u>8</u>     | <u>43</u>                       | <u>110</u>   |
| Net staff costs                         | 1,039                                | 867          | 2,010                           | 1,867        |
| Depreciation and amortisation           | 692                                  | 704          | 1,401                           | 1,404        |
| Payments to telecommunication operators | 939                                  | 964          | 1,910                           | 1,952        |
| Other operating costs                   | <u>1,549</u>                         | <u>1,419</u> | <u>3,075</u>                    | <u>2,752</u> |
| <b>Total before specific items</b>      | 4,219                                | 3,954        | 8,396                           | 7,975        |
| Specific items (note 4)                 | <u>70</u>                            | <u>3</u>     | <u>82</u>                       | <u>20</u>    |
| <b>Total</b>                            | <u>4,289</u>                         | <u>3,957</u> | <u>8,478</u>                    | <u>7,995</u> |

### 4 Specific items

BT will continue to separately identify and disclose any material one off or unusual items (termed “specific items”). This is consistent with the way that financial performance is measured by management and we believe assists in providing a meaningful analysis of the trading results of the group. “Specific items” may not be comparable to similarly titled measures used by other companies. In the comparative period the specific items were previously referred to as exceptional items under UK GAAP.

|                                                 | Second quarter ended<br>September 30 |             | Half year ended<br>September 30 |             |
|-------------------------------------------------|--------------------------------------|-------------|---------------------------------|-------------|
|                                                 | 2005                                 | 2004        | 2005                            | 2004        |
|                                                 | £m                                   | £m          | £m                              | £m          |
| <b>Operating costs (income)</b>                 |                                      |             |                                 |             |
| Creation of Openreach <sup>1</sup>              | 70                                   | -           | 70                              | -           |
| Property rationalisation costs                  | -                                    | 3           | 12                              | 20          |
| Profit on sale of non current asset investments | <u>-</u>                             | <u>(25)</u> | <u>-</u>                        | <u>(28)</u> |
| <b>Total specific items</b>                     | <u>70</u>                            | <u>(22)</u> | <u>82</u>                       | <u>(8)</u>  |

<sup>1</sup>A provision of £70 million has been recognised in the second quarter, relating to the incremental and directly attributable costs to create Openreach arising from the legal undertakings agreed with Ofcom.

## 5 Net finance costs

|                                                    | Second quarter ended<br>September 30 |              | Half year ended<br>September 30 |                |
|----------------------------------------------------|--------------------------------------|--------------|---------------------------------|----------------|
|                                                    | 2005                                 | 2004         | 2005                            | 2004           |
|                                                    | £m                                   | £m           | £m                              | £m             |
| Finance costs <sup>1</sup> before pension interest | 222                                  | 270          | 484                             | 532            |
| Interest on pension scheme liabilities             | <u>454</u>                           | <u>430</u>   | <u>908</u>                      | <u>860</u>     |
| Finance costs                                      | <u>676</u>                           | <u>700</u>   | <u>1,392</u>                    | <u>1,392</u>   |
| Finance income before pension income               | (58)                                 | (67)         | (115)                           | (124)          |
| Expected return on pension scheme assets           | <u>(518)</u>                         | <u>(479)</u> | <u>(1,035)</u>                  | <u>(959)</u>   |
| Finance income                                     | <u>(576)</u>                         | <u>(546)</u> | <u>(1,150)</u>                  | <u>(1,083)</u> |
| Net finance costs                                  | <u>100</u>                           | <u>154</u>   | <u>242</u>                      | <u>309</u>     |

<sup>1</sup>Finance costs in the second quarter and half year ended September 30, 2005 include a £19 million and £7 million net credit, respectively, arising from the re-measurement of financial instruments which are not in hedging relationships on a fair value basis. A component of these net credits is the fair value movement in, and realised gain arising from, the early redemption of the US dollar 2008 LG Telecom convertible bond amounting to £31 million for the second quarter and £27 million for the half year.

## 6 Dividends

|                                                                     | Half year<br>ended September 30 |            | Half year<br>ended September 30 |            |
|---------------------------------------------------------------------|---------------------------------|------------|---------------------------------|------------|
|                                                                     | 2005                            | 2004       | 2005                            | 2004       |
|                                                                     | Pence per share                 |            | £m                              | £m         |
| Amounts recognised as distributions to equity holders in the period | <u>6.5</u>                      | <u>5.3</u> | <u>551</u>                      | <u>454</u> |

The directors have declared an interim dividend of 4.3 pence per share (3.9 pence last year), payable on February 13, 2006 to the shareholders on the register at the close of business on December 30, 2005. This interim dividend, amounting to £362 million, has not been included as a liability as at September 30, 2005 (£332 million as at September 30, 2004). The final dividend for the year ended March 31, 2005 of 6.5 pence per share was approved on July 13, 2005.

## 7 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the average number of shares in issue after deducting the company's shares held by employee share ownership trusts and treasury shares. In calculating the diluted earnings per share, share options outstanding and other potential ordinary shares have been taken into account.

The average number of shares in the periods were:

|         | Second quarter<br>ended September 30 |       | Half year<br>ended September 30 |       |
|---------|--------------------------------------|-------|---------------------------------|-------|
|         | 2005                                 | 2004  | 2005                            | 2004  |
|         | millions of shares                   |       | millions of shares              |       |
| Basic   | 8,456                                | 8,535 | 8,463                           | 8,546 |
| Diluted | 8,589                                | 8,596 | 8,579                           | 8,597 |

## 8 (a) Reconciliation of profit to cash generated from operations

|                                                                         | Second quarter<br>ended September 30 |              | Half year<br>ended September 30 |              |
|-------------------------------------------------------------------------|--------------------------------------|--------------|---------------------------------|--------------|
|                                                                         | 2005                                 | 2004         | 2005                            | 2004         |
|                                                                         | £m                                   | £m           | £m                              | £m           |
| Profit before tax                                                       | 489                                  | 571          | 988                             | 982          |
| Depreciation and amortisation                                           | 692                                  | 704          | 1,401                           | 1,404        |
| Associates and joint ventures                                           | (3)                                  | 3            | (8)                             | 10           |
| Employee share scheme costs                                             | 25                                   | 8            | 37                              | 12           |
| Net finance costs                                                       | 100                                  | 154          | 242                             | 309          |
| Profit on disposal of property assets and non current asset investments | -                                    | (40)         | -                               | (43)         |
| Changes in working capital                                              | (8)                                  | (14)         | (461)                           | (151)        |
| Provisions movements, pensions and other                                | 79                                   | 29           | 147                             | 100          |
| <b>Cash generated from operations</b>                                   | <u>1,374</u>                         | <u>1,415</u> | <u>2,346</u>                    | <u>2,623</u> |

### (b) Free cash flow

|                                                         | Second quarter<br>ended September 30 |            | Half year<br>ended September 30 |            |
|---------------------------------------------------------|--------------------------------------|------------|---------------------------------|------------|
|                                                         | 2005                                 | 2004       | 2005                            | 2004       |
|                                                         | £m                                   | £m         | £m                              | £m         |
| <b>Cash generated from operations</b>                   | 1,374                                | 1,415      | 2,346                           | 2,623      |
| Income taxes paid                                       | (111)                                | (1)        | (242)                           | (42)       |
| <b>Net cash inflow from operating activities</b>        | 1,263                                | 1,414      | 2,104                           | 2,581      |
| <b>Included in cash flows from investing activities</b> |                                      |            |                                 |            |
| Net purchase of property, plant, equipment and software | (671)                                | (726)      | (1,357)                         | (1,455)    |
| Net (purchase) sale of non current asset investments    | (1)                                  | 2          | (1)                             | 25         |
| Dividends received from associates                      | -                                    | 1          | -                               | 1          |
| Interest received                                       | 59                                   | 48         | 96                              | 103        |
| <b>Included in cash flows from financing activities</b> |                                      |            |                                 |            |
| Interest paid                                           | (147)                                | (145)      | (465)                           | (504)      |
| <b>Free cash flow</b>                                   | <u>503</u>                           | <u>594</u> | <u>377</u>                      | <u>751</u> |

## 8 (b) Free cash flow *continued*

Free cash flow is defined as the net increase in cash and cash equivalents less cash flows from financing activities (except interest paid) and less the acquisition or disposal of group undertakings. It is not a measure recognised under IFRS but is a key indicator used by management in order to assess operational performance.

## (c) Cash and cash equivalents

|                           | At September 30 |              | At March 31  |
|---------------------------|-----------------|--------------|--------------|
|                           | 2005            | 2004         | 2005         |
|                           | £m              | £m           | £m           |
| Cash at bank and in hand  | 475             | 117          | 206          |
| Short term deposits       | <u>1,252</u>    | <u>1,076</u> | <u>1,106</u> |
| Cash and cash equivalents | 1,727           | 1,193        | 1,312        |
| Bank overdrafts           | <u>(195)</u>    | <u>(1)</u>   | <u>(2)</u>   |
|                           | <u>1,532</u>    | <u>1,192</u> | <u>1,310</u> |

## 9 Net debt

Net debt at September 30, 2005 was £8,133 million (September 30, 2004 - £8,373 million, March 31, 2005 - £7,893 million).

Net debt consists of borrowings less financial assets and cash and cash equivalents. Borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. Financial assets and cash and cash equivalents are measured at the lower of cost and net realisable value. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged.

This definition of net debt reflects the future cash flows due to arise on maturity of financial instruments and removes the balance sheet volatility arising from the re-measurement of hedged risks under fair value hedges and the use of the amortised cost method that is required by IAS 39. It is not a measure recognised under IFRS but is used by management to measure and monitor performance.

## 9 Net debt *continued*

### (a) Analysis

|                                                                                  | At September 30     |                     | At March 31         |
|----------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
|                                                                                  | 2005                | 2004                | 2005                |
|                                                                                  | £m                  | £m                  | £m                  |
| Loans and other borrowings                                                       | 12,838              | 12,906              | 12,005              |
| Cash and cash equivalents                                                        | (1,727)             | (1,193)             | (1,312)             |
| Other current financial assets <sup>1</sup>                                      | (2,996)             | (3,972)             | (3,491)             |
|                                                                                  | 8,115               | 7,741               | 7,202               |
| Adjustments:                                                                     |                     |                     |                     |
| To retranslate currency denominated balances at swapped rates where hedged       | 399                 | 632                 | 691                 |
| To recognise investments and borrowings at net proceeds and unamortised discount | (383)               | -                   | -                   |
| Other                                                                            | <u>2</u>            | <u>-</u>            | <u>-</u>            |
| <b>Net debt</b>                                                                  | <b><u>8,133</u></b> | <b><u>8,373</u></b> | <b><u>7,893</u></b> |

After allocating the element of the adjustments which impact loans and other borrowings, gross debt at September 30, 2005 was £12,586 million (September 30, 2004 - £13,536 million, March 31, 2005 - £12,696 million).

<sup>1</sup>Excluding derivative financial instruments of £221 million, £nil and £143 million at September 30, 2005 and 2004 and March 31, 2005, respectively.

### (b) Reconciliation of net cash flow to movement in net debt

|                                                           | Second quarter ended |                     | Half year           |                     |
|-----------------------------------------------------------|----------------------|---------------------|---------------------|---------------------|
|                                                           | September 30         |                     | ended September 30  |                     |
|                                                           | 2005                 | 2004                | 2005                | 2004                |
|                                                           | £m                   | £m                  | £m                  | £m                  |
| Net debt at beginning of period                           | 8,121                | 8,422               | 7,893               | 8,530               |
| Increase (decrease) in net debt resulting from cash flows | 125                  | (85)                | 360                 | (209)               |
| Net debt assumed or issued on acquisitions                | -                    | -                   | 1                   | -                   |
| Currency movements                                        | (10)                 | 30                  | (24)                | 41                  |
| Other non-cash movements                                  | <u>(103)</u>         | <u>6</u>            | <u>(97)</u>         | <u>11</u>           |
| Net debt at end of period                                 | <b><u>8,133</u></b>  | <b><u>8,373</u></b> | <b><u>8,133</u></b> | <b><u>8,373</u></b> |

## 10 Changes in equity

|                                                    | Half year ended<br>September 30 |              |
|----------------------------------------------------|---------------------------------|--------------|
|                                                    | 2005                            | 2004         |
|                                                    | £m                              | £m           |
| Shareholders' funds (deficit)                      | 45                              | (1,085)      |
| Minority interests                                 | <u>50</u>                       | <u>46</u>    |
|                                                    | 95                              | (1,039)      |
| Effect of adoption of IAS 32 and IAS 39            | <u>(337)</u>                    | <u>-</u>     |
| <b>Deficit at beginning of period</b>              | (242)                           | (1,039)      |
| Total recognised income and expense for the period | 1,500                           | 608          |
| Employee share schemes                             | 26                              | 27           |
| Issues of shares                                   | 4                               | -            |
| Net movement in treasury shares                    | (108)                           | (80)         |
| Dividends on ordinary shares                       | (551)                           | (454)        |
| Other                                              | <u>(1)</u>                      | <u>5</u>     |
| Net changes in equity for the financial period     | 870                             | 106          |
| <b>Equity at end of period</b>                     |                                 |              |
| Shareholders' funds (deficit)                      | 579                             | (981)        |
| Minority interests                                 | <u>49</u>                       | <u>48</u>    |
|                                                    | <u>628</u>                      | <u>(933)</u> |

## 11 Earnings before interest, taxation, depreciation and amortisation (EBITDA)

|                                        | Second quarter ended<br>September 30 |              | Half year<br>ended September 30 |              |
|----------------------------------------|--------------------------------------|--------------|---------------------------------|--------------|
|                                        | 2005                                 | 2004         | 2005                            | 2004         |
|                                        | £m                                   | £m           | £m                              | £m           |
| Operating profit                       | 586                                  | 728          | 1,222                           | 1,301        |
| Specific items (note 4)                | 70                                   | (22)         | 82                              | (8)          |
| Depreciation and amortisation (note 3) | <u>692</u>                           | <u>704</u>   | <u>1,401</u>                    | <u>1,404</u> |
| EBITDA before specific items           | <u>1,348</u>                         | <u>1,410</u> | <u>2,705</u>                    | <u>2,697</u> |

Earnings before interest, taxation, depreciation and amortisation (EBITDA) before specific items is not a measure recognised under IFRS, but it is a key indicator used by management in order to assess operational performance.

## 12 United States Generally Accepted Accounting Principles (US GAAP)

The results set out above have been prepared in accordance with the basis of preparation as set out in note 1. The table below sets out the results calculated in accordance with US GAAP.

|                                              | Second quarter ended<br>September 30 |      | Half year<br>ended September 30 |      |
|----------------------------------------------|--------------------------------------|------|---------------------------------|------|
|                                              | 2005                                 | 2004 | 2005                            | 2004 |
| Net income attributable to shareholders (£m) | 191                                  | 407  | 583                             | 480  |
| Earnings per ADS (£)                         |                                      |      |                                 |      |
| - basic                                      | 0.23                                 | 0.48 | 0.69                            | 0.56 |
| - diluted                                    | 0.22                                 | 0.47 | 0.68                            | 0.56 |

Each American Depositary Share (ADS) represents 10 ordinary shares of BT Group plc.

Shareholders' equity, calculated in accordance with US GAAP, is a £615 million deficit at September 30, 2005 (September 30, 2004 - £1,442 million deficit, March 31, 2005 - £584 million deficit).

## 13 Reconciliation of UK GAAP to IFRS for comparative periods

On July 28, 2005 the group issued its first quarter results which also included appendices presenting and explaining the consolidated results of the group restated from UK GAAP onto an IFRS basis for the year ended March 31, 2005, the three months ended June 30, 2004 and the balance sheet as at April 1, 2004 and June 30, 2004. The group has adopted IAS 39 and IAS 32 prospectively from April 1, 2005 and a reconciliation of the group's IFRS balance sheet from March 31, 2005 to April 1, 2005 was also included in the IFRS information presented with the first quarter results. The first quarter results are available on the group's website at [www.btplc.com/Sharesandperformance](http://www.btplc.com/Sharesandperformance)

In this interim statement the group is also presenting a reconciliation from UK GAAP to IFRS of the profit for the comparable financial period (the quarter and six months ended September 30, 2004), together with the equity at the end of the comparable period (September 30, 2004).

### 13 Reconciliation of UK GAAP to IFRS for comparative periods *continued*

#### (a) Reconciliation of profit between UK GAAP and IFRS

|                                                   | Notes | Second<br>quarter ended<br>September 30<br>2004<br>£m | Half year<br>ended<br>September 30<br>2004<br>£m |
|---------------------------------------------------|-------|-------------------------------------------------------|--------------------------------------------------|
| Profit attributable to shareholders under UK GAAP |       | 427                                                   | 732                                              |
| Effect of transition to IFRS (net of tax)         |       |                                                       |                                                  |
| Pensions                                          | i     | 20                                                    | 42                                               |
| Goodwill                                          | ii    | 4                                                     | 8                                                |
| Share based payments                              | iii   | (6)                                                   | (9)                                              |
| Leases                                            | iv    | (18)                                                  | (37)                                             |
| Other                                             |       | <u>2</u>                                              | <u>(5)</u>                                       |
| Profit attributable to shareholders under IFRS    |       | <u>429</u>                                            | <u>731</u>                                       |

#### (b) Reconciliation of equity between UK GAAP and IFRS

|                                           | Notes | At September 30<br>2004<br>£m |
|-------------------------------------------|-------|-------------------------------|
| Total equity under UK GAAP                |       | 3,462                         |
| Effect of transition to IFRS (net of tax) |       |                               |
| Pensions                                  | i     | (4,486)                       |
| Goodwill                                  | ii    | 8                             |
| Share based payments                      | iii   | 3                             |
| Leases                                    | iv    | (252)                         |
| Dividends                                 | v     | <u>332</u>                    |
| Total equity under IFRS                   |       | <u>(933)</u>                  |

### Notes

#### i Pensions

Cumulative actuarial gains and losses in respect of the group's defined benefit pension schemes have been recognised in full on transition to IFRS (April 1, 2004). Actuarial gains and losses arising from the transition date are being recognised immediately in reserves, in accordance with the amended version of IAS 19 "Employee benefits". An actuarial loss of £139 million (net of tax) arose in the six months ended September 30, 2004. The income statement charge is split between an operating charge and a net finance charge. The charge to operating costs in respect of pensions has increased by £20 million for the second quarter ended September 30, 2004 (£39 million for the six months ended September 30, 2004) and net finance income has

### **13 Reconciliation of UK GAAP to IFRS for comparative periods** *continued*

#### **i Pensions** *continued*

increased by £49 million for the second quarter ended September 30, 2004 (£99 million for the six months ended September 30, 2004), giving rise to an overall increase in earnings of £29 million for the quarter ended September 30, 2004 (£60 million for the six months ended September 30, 2004). The associated deferred tax benefit recognised in the income statement for the quarter ended September 30, 2004 was £9 million (£18 million for the six months ended September 30, 2004).

A pension liability was recognised at September 30, 2004 of £5,345 million and associated deferred tax asset of £1,604 million. This was offset by the reversal of provisions and other creditors of £37 million. The pension prepayment of £1,113 million on the UK GAAP balance sheet has also been reversed including the associated deferred tax liability of £331 million. The net effect has been a reduction in shareholders' funds of £4,486 million.

#### **ii Goodwill**

The group has used the exemption available under IFRS 1 for not restating business combinations. IFRS 3 "Business Combinations" requires that goodwill arising from business combinations should not be amortised. Accordingly, the UK GAAP goodwill amortisation charge of £4 million for the quarter ended September 30, 2004 (£8 million for the six months ended 30 September 2004) has been reversed. There is no tax impact.

#### **iii Share based payments**

Under IFRS 2 "Share based payment", an expense must be recognised in the income statement for all share based payments. This expense is based on the fair value at the date of the award, using an option pricing model, and is charged to the income statement over the related performance period. This has resulted in an increased operating charge for the quarter ended September 30, 2004 of £8 million (£12 million for the six months ended September 30, 2004). The credit entry for the share based payments is recognised directly in reserves as the awards are equity settled, therefore there is no overall impact on shareholders' equity.

#### **iv Leases**

Under IAS 17 "Leases" the buildings element of a small number of properties have been reclassified from operating leases under UK GAAP to finance leases under IFRS, and lease rentals under BT's sale and leaseback transactions are recognised on a straight line basis. For those properties reclassified as finance leases, profit before tax for the quarter ended September 30, 2004 has been reduced by £1 million (£2 million for the six months ended September 30, 2004) as a result of the recognition of depreciation and finance lease interest charges and the removal of the UK GAAP operating lease charges. Recognising the operating lease charges on a straight line basis has further reduced profit before tax for the quarter ended September 30, 2004 by £26 million (£52 million for the six months ended September 30, 2004). The associated deferred tax benefit

**14 Reconciliation of UK GAAP to IFRS for comparative periods** *continued***iv Leases** *continued*

recognised in the income statement for the quarter ended September 30, 2004 was £9 million (£17 million for the six months ended September 30, 2004).

**v Dividends**

Under UK GAAP the dividend charge was recognised in the profit and loss account in the period to which it related. Under IAS 10 “Events after the balance sheet date”, dividends are not recognised in the income statement but directly within reserves, when they have been declared. In addition, the final dividend is recognised only when it has been declared and approved by the company in general meeting. The final dividend for the year ended March 31, 2004 of £454 million was approved by the company on July 14, 2004 and has therefore been recognised in reserves, however the interim dividend of £332 million has been reversed since it was declared after September 30, 2004.

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**Forward-looking statements – caution advised**

Certain statements in this results release 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; implementation of BT's 21<sup>st</sup> Century Network; expectations regarding revenue growth, cost transformation and savings; and delivering value through transformation of the business.

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.

The IFRS position as stated is BT's current view, based on the Standards currently in issue, and changes may arise as new accounting pronouncements are developed and issued. Due to a number of new and revised Standards, included within the body of Standards that comprise IFRS, there is not yet a significant body of established best practice on which to draw in forming opinions regarding interpretation and application. Accordingly, practice is continuing to evolve. At this stage, therefore, the full financial effect of reporting under IFRS, as it will be applied and reported in the group's first full IFRS financial statements, cannot be determined with certainty and may be subject to change.