

# Financial results



## THIRD QUARTER AND NINE MONTHS RESULTS TO DECEMBER 31, 2004

### THIRD QUARTER HIGHLIGHTS

- Group turnover up 3 per cent, excluding the impact of mobile termination rate reductions, at £4,584 million. Turnover was marginally up including the impact of mobile termination rate reductions
- New wave turnover of £1,135 million, up 35 per cent, representing 25 per cent of group turnover
- Profit before taxation, goodwill amortisation and exceptional items of £545 million, up 4 per cent
- Earnings per share before goodwill amortisation and exceptional items, up 9 per cent at 4.8 pence
- Net debt of £7,940 million, 10 per cent lower than previous year
- Broadband end users of 4.1 million at December 31, 2004 with a record 813,000 DSL connections in the quarter

The full profit and loss account, cash flow statement and balance sheet, drawn up in accordance with UK generally accepted accounting principles, from which this information is extracted are set out on pages 12 to 17.

### Chief Executive's statement

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

“Our transformation strategy has now delivered underlying revenue growth in four consecutive quarters, a significant milestone. We have seen new wave growth of 35 per cent.

“Broadband DSL connections were more than 800,000 in the quarter, a new connection every 10 seconds of every day. We expect to achieve 5 million broadband DSL connections a year ahead of target.

“Our global ICT presence is building strongly and our Global Services revenues grew by 10 per cent in the quarter.

“Earnings per share before goodwill amortisation and exceptional items grew by 9 per cent to 4.8 pence.

“These results justify the confidence we have in our strategy which is transforming BT and delivering long-term growth in shareholder value.”

**RESULTS FOR THE THIRD QUARTER AND NINE MONTHS  
TO DECEMBER 31, 2004**

	Third quarter			Nine months		
	2004 £m	2003 £m	Better (worse) %	2004 £m	2003 £m	Better (worse) %
Group turnover	4,584	4,578	-	13,753	13,732	-
<b>EBITDA</b>						
- before exceptional items and leaver costs	1,450	1,499	(3)	4,343	4,454	(2)
- before exceptional items	1,438	1,473	(2)	4,221	4,401	(4)
<b>Profit before taxation</b>						
- before goodwill, exceptional items and leaver costs	557	551	1	1,650	1,607	3
- before goodwill and exceptional items	545	525	4	1,528	1,554	(2)
- after goodwill and exceptional items	790	518	53	1,773	1,522	16
<b>Earnings per share</b>						
- before goodwill, exceptional items and leaver costs	4.9p	4.6p	7	14.3p	13.4p	7
- before goodwill and exceptional items	4.8p	4.4p	9	13.3p	13.0p	2
- after goodwill and exceptional items	7.7p	4.5p	71	16.2p	12.9p	26
Capital expenditure	770	699	(10)	2,267	1,829	(24)
Free cash flow	387	49	n/m	1,138	1,252	(9)
Net debt				7,940	8,795	10

The commentary focuses on the results before goodwill amortisation and exceptional items. This is consistent with the way that financial performance is measured by management and we believe allows a meaningful comparison to be made of the trading results of the group.

As noted in the first quarter, the results have been restated to reflect the requirements of UITF Abstract 38 'Accounting for ESOP trusts' and the related amendments to UITF Abstract 17 (revised 2003) 'Employee Share Schemes' which the group has adopted (see note 1). This restatement results in an additional operating profit charge of £3 million for the nine months and £1 million for the quarter ended December 31, 2003.

The full profit and loss account, cash flow statement and balance sheet are provided on pages 12 to 17. A reconciliation of EBITDA to group operating profit is provided on page 25.

## **GROUP RESULTS – THIRD QUARTER ENDED DECEMBER 31, 2004**

These results show that the business has grown for the fourth consecutive quarter. Turnover was marginally higher at £4,584 million with the strong growth of new wave turnover more than offsetting the decline in traditional turnover. Excluding the impact of regulatory reductions to mobile termination rates, which have no impact on profitability, the underlying turnover increased by 3 per cent. Earnings per share before goodwill amortisation and exceptional items increased by 9 per cent to 4.8 pence.

The strong growth in new wave turnover continued and at £1,135 million was 35 per cent higher than last year. This is the fifth consecutive quarter of growth in excess of 30 per cent. New wave turnover now accounts for one quarter of the group's turnover compared to 18 per cent in the third quarter of last year. New wave turnover is mainly generated from Information and Communications Technology (ICT) solutions and managed services, broadband and mobility. ICT turnover grew by 21 per cent to £738 million. Broadband turnover increased by 98 per cent to £253 million. Mobility turnover at £55 million achieved growth of 112 per cent.

Turnover from the group's traditional businesses declined by 8 per cent (4 per cent excluding the impact of reductions to mobile termination rates). This decline reflects regulatory intervention, competition, price reductions and also technological changes that we are using to drive customers from traditional services to new wave services, such as broadband and Internet Protocol Virtual Private Networks (IPVPN's).

Total consumer turnover in the third quarter was 6 per cent lower (5 per cent lower excluding the impact of reductions to mobile termination rates). New wave consumer turnover increased by 97 per cent, driven by the continuing growth of broadband and mobility. Residential broadband connections increased by 90 per cent and mobility connections increased to 179,000 at December 31, 2004 from 24,000 last year.

Traditional consumer turnover declined 11 per cent year on year. This decline reflects the impact of Carrier Pre-Selection (CPS) and broadband substitution.

There are now 17.6 million BT Together customers and within this, the number of customers on the frequent user packages of BT Together Option 2 increased by 6 per cent to 1.3 million and Option 3 increased by 103 per cent to 556,000.

The underlying 12 month rolling average revenue per consumer customer household (net of mobile termination charges) of £259 declined by £3 compared to last quarter with increased broadband volumes more than offset by lower call revenues and broadband price reductions.

Contracted revenues increased by 1 percentage point to 61 per cent compared to last quarter, and is 4 percentage points higher than last year.

Turnover from smaller and medium sized businesses declined by 5 per cent (3 per cent excluding the impact of reductions to mobile termination rates). The continued expansion of the BT Business Plan portfolio has extended its reach. The number of business locations increased by 94 per cent against last year to 421,000 by December 31, 2004, an increase of 31 per cent in the quarter. This, together with our 82 BT Local Businesses, defended against some of the decline in the traditional turnover. New wave turnover grew by 42 per cent in this customer segment supported by the 50 per cent growth in Business Broadband customers.

Major Corporate (UK and international) turnover increased by 5 per cent with the strong growth in new wave turnover (21 per cent) more than offsetting the decline in traditional services. There is a continued migration from traditional voice only services to managed ICT solutions contracts and an increase in mobility and broadband turnover. New wave turnover represents almost half of all Major Corporate turnover. ICT contract wins were £1.2 billion in the third quarter, including a seven year IP based services contract with Barclays, which results in orders of £5.7 billion over the last twelve months.

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 consumer market share declined by 1.3 percentage points compared to last quarter to around 63 per cent whilst the estimated business market share declined by 0.5 percentage points to around 42 per cent.

Wholesale (UK and Global Carrier) turnover increased by 7 per cent (16 per cent excluding the impact of reductions to mobile termination rates). UK Wholesale new wave turnover increased by 80 per cent to £180 million mainly driven by broadband.

At December 31, 2004 there was an installed base of 4.1 million wholesale broadband DSL lines, an increase of 134 per cent over last year, with a new connection every 10 seconds of every day in the quarter. We expect to reach 5 million broadband DSL lines in the spring, a year ahead of our target.

The group has an extensive market research programme conducted by external agencies which focuses on the level and causes of customer dissatisfaction. BT has achieved a 12 per cent year to date reduction in the level of customer dissatisfaction.

Group operating costs before goodwill amortisation and exceptional items were flat year on year at £3,888 million. Leaver costs were £12 million in the quarter (£26 million last year). Net staff costs increased by £22 million to £914 million due to the additional staff required to

service ICT contracts. Payments to other telecommunication operators were £43 million (5 per cent) lower than last year mainly reflecting the impact of the mobile termination rate reductions offset by higher volumes. Other operating costs (excluding goodwill amortisation and exceptional items) increased by £73 million, in line with our expectations. This reflects not only the costs of supporting new ICT contracts, but also investment in new wave activities, including strengthening our ICT delivery capabilities outside the UK, higher marketing costs and higher subscriber acquisition costs. These were partly offset by cost savings from our efficiency programmes.

Depreciation was £37 million lower than last year at £694 million reflecting shorter life assets becoming fully depreciated.

Group operating profit before goodwill amortisation and exceptional items was maintained at £744 million. Operating profit margins remained steady at 16.2 per cent.

Net interest payable before exceptional items was £200 million, an improvement of £23 million against last year reflecting the reduction in the level of net debt.

Profit before taxation, goodwill amortisation and exceptional items of £545 million increased by 4 per cent compared to last year.

The effective tax rate on the profit before goodwill amortisation and exceptional items was 25.7 per cent (27.4 per cent last year). The effective tax rate reflects tax efficient investment of surplus cash and greater tax efficiency in the group.

Earnings per share before goodwill amortisation and exceptional items increased by 9 per cent to 4.8 pence.

### **Exceptional items and goodwill**

There was a net exceptional profit before taxation in the quarter of £249 million. This included the £284 million profit on disposal of certain group investments, including Eutelsat and Starhub. This was partly offset by an exceptional impairment charge of £25 million, being BT's share of a write down of Albacom's fixed assets and an exceptional property rationalisation charge of £10 million in relation to the group's provincial office portfolio. This rationalisation programme is expected to continue throughout the current financial year and beyond giving rise to additional rationalisation costs.

Goodwill amortisation was £4 million (£3 million last year).

Earnings per share after goodwill amortisation and exceptional items were 7.7 pence compared to 4.5 pence last year.

## **Cash flow and net debt**

Cash inflow from operating activities amounted to £1,205 million compared to £1,038 million last year. Last year's cash inflow was net of special and deficiency contributions to the BT Pension Scheme totalling £362 million. The adverse working capital movement this quarter mainly reflects the timing impact of supplier payments.

Return on investments and servicing of finance is a net cash outflow of £380 million compared to £216 million last year. This movement was mainly due to the receipt of funds in the third quarter of last year on restructuring a significant part of the group's hedging swap portfolio.

The net cash outflow on fixed asset purchases and sales was £305 million in the quarter which compares to £599 million last year mainly reflecting the consideration from the disposal of fixed asset investments in Eutelsat (£357 million) and Starhub (£76 million). The net cash outflow on tangible fixed asset purchases and sales was £755 million in the quarter, compared to £665 million last year, reflecting investment in broadband rollout, ICT contracts and transformational expenditure on the network.

BT's plans for the implementation of its 21<sup>st</sup> century network (21CN) continue to make progress. The first external customers are connected to the 21CN access fibre trial and live trials to test the migration of voice calls from BT's traditional public switched telecommunications network (PSTN) to a dedicated Internet Protocol (IP) based platform are progressing with the first calls being successfully made across the IP network.

Free cash flow was a net inflow of £387 million compared to £49 million last year.

The share buyback programme continued with the repurchase of 18 million shares for £36 million, with a net cash outflow in the quarter of £31 million.

Net debt continued to improve and was £7,940 million at December 31, 2004, 10 per cent below the level at December 31, 2003.

**Post balance sheet events**

In December BT agreed to acquire the 74 per cent interest in Albacom not already held, giving BT full ownership for a minimum price of €116 million (£82 million). The transaction completed on February 4, 2005.

The integration of Albacom will allow BT to provide an unmatched service to corporate and public sector customers in Italy and to international businesses with operations in Italy.

The previously announced acquisition of Infonet is subject to Infonet shareholder approval and regulatory clearances and is expected to complete in the fourth quarter.

These acquisitions mark a significant step forward in BT's strategy of addressing the IT and networking services needs of multi-site companies and organisations.

In February the disposal of Intelsat completed and BT received US\$120 million proceeds from the disposal of its investment.

**International Financial Reporting Standards**

Our financial statements for the year ending March 31, 2006 will be prepared in accordance with International Financial Reporting Standards (IFRS). Our project to manage the transition from UK GAAP to IFRS is well advanced.

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The fourth quarter and preliminary results of BT Group are expected to be announced on May 19, 2005.

**BT Retail**

	Third quarter ended December 31				Nine months ended December 31	
	2004	2003*	Better (worse)		2004	2003*
	£m	£m	£m	%	£m	£m
Group turnover	<u>3,104</u>	<u>3,190</u>	(86)	(3)	<u>9,341</u>	<u>9,564</u>
Gross margin	820	888	(68)	(8)	2,462	2,641
Sales, general and administration costs	<u>518</u>	<u>529</u>	11	2	<u>1,546</u>	<u>1,552</u>
EBITDA	302	359	(57)	(16)	916	1,089
Depreciation	<u>28</u>	<u>38</u>	10	26	<u>96</u>	<u>126</u>
Operating profit	<u>274</u>	<u>321</u>	(47)	(15)	<u>820</u>	<u>963</u>
Operating profit before leaver costs	<u>279</u>	<u>341</u>	(62)	(18)	<u>872</u>	<u>993</u>
Capital expenditure	<u>40</u>	<u>32</u>	(8)	(25)	<u>104</u>	<u>72</u>

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

New wave turnover grew strongly by 38 per cent and was offset by the traditional turnover decline of 10 per cent. Overall turnover declined by 3 per cent (1 per cent excluding the impact of reductions to mobile termination rates).

<b>BT Retail turnover</b>	Third quarter ended December 31				Nine months ended December 31	
	2004	2003*	Better (worse)		2004	2003*
	£m	£m	£m	%	£m	£m
Voice Services	1,972	2,221	(249)	(11)	6,129	6,741
Intermediate Products	<u>433</u>	<u>464</u>	(31)	(7)	<u>1,303</u>	<u>1,403</u>
<b>Traditional</b>	<u>2,405</u>	<u>2,685</u>	(280)	(10)	<u>7,432</u>	<u>8,144</u>
ICT	485	390	95	24	1,347	1,140
Broadband	145	81	64	79	378	206
Mobility	50	21	29	138	133	50
Other	<u>19</u>	<u>13</u>	6	46	<u>51</u>	<u>24</u>
<b>New Wave</b>	<u>699</u>	<u>505</u>	194	38	<u>1,909</u>	<u>1,420</u>
<b>Total</b>	<u>3,104</u>	<u>3,190</u>	(86)	(3)	<u>9,341</u>	<u>9,564</u>
Sales to other BT businesses incl. above	117	77	40	52	310	198

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

Turnover from voice services was 11 per cent lower than last year (9 per cent excluding the impact of reductions to mobile termination rates). The reduction reflects the migration to broadband, with a 28 per cent fall in dial up internet minutes, reductions in market share and a decline in the overall fixed to fixed calls market.



Turnover from intermediate products decreased by 7 per cent compared to last year mainly driven by the continued decline in private circuits and ISDN as customers migrate to new wave products including broadband and IPVPN.

BT Retail's new wave turnover increased by 38 per cent compared to last year, an increase in the rate of growth from last quarter. New wave turnover accounted for 23 per cent of BT Retail total turnover in the quarter, up from 16 per cent last year. ICT turnover increased by 24 per cent, reflecting strong growth compared to the overall market.

The growth of broadband continues with 1,491,000 BT Retail connections at December 31, 2004, an increase of 16 per cent in the quarter. Net additions of 208,000 were a 26 per cent share of the DSL market additions. Broadband turnover grew by 79 per cent to £145 million.

BT Mobile now has over 340,000 post pay contract mobile connections at December 31, 2004, increasing the number of connections in the quarter by 12 per cent and more than treble the December 31, 2003 base. Turnover from mobility services more than doubled to £50 million.

Gross margin decreased by 1.4 percentage points to 26.4 per cent compared to last year primarily reflecting costs associated with the change from traditional business to new wave services. As the broadband and mobility customer base grows, the additional subscriber acquisition costs are written off as incurred. In addition, the creation and development of new value added services resulted in increased development costs.

In total £26 million more was invested in new wave activities (including new entertainment products and bluephone) compared to last year. However, in the traditional business, cost transformation programmes contributed to savings of £22 million. Leaver costs of £5 million were incurred in the quarter, a decrease of £15 million over last year.

Overall these results led to an operating profit in the quarter of £274 million which is 15 per cent lower than last year.

**BT Wholesale**

	Third quarter ended December 31				Nine months ended December 31	
	2004 £m	2003* £m	Better (worse) £m %		2004 £m	2003* £m
External turnover	954	865	89	10	2,847	2,602
Internal turnover	<u>1,297</u>	<u>1,339</u>	(42)	(3)	<u>3,894</u>	<u>4,062</u>
Group turnover	2,251	2,204	47	2	6,741	6,664
Variable cost of sales	<u>544</u>	<u>518</u>	(26)	(5)	<u>1,653</u>	<u>1,571</u>
Gross variable profit	1,707	1,686	21	1	5,088	5,093
Network and SG&A costs	<u>725</u>	<u>739</u>	14	2	<u>2,212</u>	<u>2,220</u>
EBITDA	982	947	35	4	2,876	2,873
Depreciation	<u>472</u>	<u>481</u>	9	2	<u>1,425</u>	<u>1,428</u>
Operating profit	<u>510</u>	<u>466</u>	44	9	<u>1,451</u>	<u>1,445</u>
Operating profit before leaver costs	<u>511</u>	<u>468</u>	43	9	<u>1,493</u>	<u>1,449</u>
Capital expenditure	<u>513</u>	<u>489</u>	(24)	(5)	<u>1,533</u>	<u>1,265</u>

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

Wholesale turnover for the quarter of £2,251 million was 2 per cent higher and gross variable profit of £1,707 million was 1 per cent higher than last year. EBITDA and operating profit have increased by 4 per cent and 9 per cent, respectively.

At £954 million external turnover increased by 10 per cent with the underlying growth being 21 per cent (excluding the impact of regulatory reductions to mobile termination rates). The growth continues to be driven by the increase in new wave turnover, mainly broadband, up 80 per cent to £180 million. The growth in underlying traditional turnover is mainly driven by interconnect traffic and wholesale access.

The impact of further regulatory reductions to interconnect prices and private circuits for mobile operators has reduced external turnover by £19 million.

Internal turnover declined by 3 per cent to £1,297 million reflecting the impact of lower volumes of calls, lines and private circuits, and lower regulatory prices being reflected in internal charges.

Gross variable profit of £1,707 million is 1 per cent higher than the same quarter last year reflecting volume increases, offset by a change in sales mix and regulatory price reductions.

The EBITDA increase of 4 per cent and operating profit increase of 9 per cent has been achieved through cost reductions in addition to the higher turnover. Network and SG&A costs are £14 million (2 per cent) lower than last year despite higher activity levels in the network driven by broadband growth.

Capital expenditure increased by 5 per cent to £513 million when compared to last year. This reflects expenditure to support the rapid growth in broadband and on transforming the group's network.

### BT Global Services

	Third quarter ended December 31				Nine months ended December 31	
	2004	2003*	Better (worse)		2004	2003*
	£m	£m	£m	%	£m	£m
Group turnover	1,543	1,407	136	10	4,453	4,133
EBITDA	148	133	15	11	379	345
Operating profit (loss)	9	(22)	31	n/m	(40)	(112)
Operating profit (loss) before leaver costs	11	(16)	27	n/m	(22)	(93)
Capital expenditure	146	115	(31)	(27)	464	319

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

See note 2 for additional detail.

Turnover for the quarter rose by 10 per cent to £1,543 million. Solutions turnover grew by 17 per cent reflecting the conversion of the strong order book from recent quarters. Consulting and Systems Integration (C&SI) produced strong turnover growth for another quarter, with the NHS contracts contributing towards the growth of 27 per cent. Solutions and C&SI achieved orders of £1.2 billion in the quarter which results in orders of £5.7 billion over the last twelve months. Global Products turnover grew by 3 per cent having benefited from continuing growth in Multi Protocol Label Switching (MPLS) products. Global Carrier turnover fell by 3 per cent reflecting the anticipated decline in AT&T revenues plus a reduction in mobile termination rates throughout Europe.

The increase in turnover, together with lower network and SG&A costs and lower depreciation, has generated an operating profit of £9 million in the quarter, a £31 million improvement over last year. The £9 million operating profit shows a consistent improvement from the operating losses of £36 million and £13 million in the first and second quarter, respectively. Operating costs included the expected increase in resources associated with strengthening the overseas network centric solutions delivery capabilities. We expect the underlying cost efficiency in Global Services will continue to improve.

Capital expenditure in the quarter at £146 million increased by £31 million mainly due to expenditure on the NHS contracts. Operating free cash flow was positive at £2 million, having been negative in the two previous quarters.

**GROUP PROFIT AND LOSS ACCOUNT**  
**for the three months ended December 31, 2004**

(unaudited)	Notes	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items (note 4) £m	Total £m
<b>Group turnover</b>	2	<b>4,584</b>	-	4,584
Other operating income		<b>48</b>	-	48
Operating costs	3	<b>(3,888)</b>	(14)	<b>(3,902)</b>
Group operating profit (loss)	2	<b>744</b>	(14)	730
Group's share of operating losses of associates and joint ventures		<b>(6)</b>	(25)	<b>(31)</b>
Total operating profit (loss)		<b>738</b>	(39)	699
Profit on sale of fixed asset investments and group undertakings		-	284	284
Profit on sale of property fixed assets		<b>7</b>	-	7
Net interest payable	5	<b>(200)</b>	-	<b>(200)</b>
<b>Profit before taxation</b>		<b>545</b>	245	790
<b>Taxation</b>		<b>(140)</b>	3	<b>(137)</b>
<b>Profit after taxation and attributable to shareholders</b>		<b><u>405</u></b>	<u>248</u>	<u>653</u>
<b>Earnings per share</b>	6			
- basic		<b><u>4.8p</u></b>		<u>7.7p</u>
- diluted		<b><u>4.7p</u></b>		<u>7.6p</u>

**GROUP PROFIT AND LOSS ACCOUNT**  
for the three months ended December 31, 2003

(unaudited, restated – see note 1)	Notes	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items (note 4) £m	Total £m
<b>Group turnover</b>	2	<b>4,578</b>	-	4,578
Other operating income		37	-	37
Operating costs	3	<u>(3,873)</u>	<u>(3)</u>	<u>(3,876)</u>
Group operating profit (loss)	2	742	(3)	739
Group's share of operating profit of associates and joint ventures		<u>5</u>	<u>-</u>	<u>5</u>
Total operating profit (loss)		747	(3)	744
Profit on sale of fixed asset investments and group undertakings		-	33	33
Profit on sale of property fixed assets		1	-	1
Net interest payable	5	<u>(223)</u>	<u>(37)</u>	<u>(260)</u>
<b>Profit (loss) before taxation</b>		<b>525</b>	<b>(7)</b>	<b>518</b>
<b>Taxation</b>		<u><b>(144)</b></u>	<u><b>11</b></u>	<u><b>(133)</b></u>
<b>Profit after taxation and attributable to shareholders</b>		<u><b>381</b></u>	<u><b>4</b></u>	<u><b>385</b></u>
<b>Earnings per share</b>	6			
- basic		<u><b>4.4p</b></u>		<u><b>4.5p</b></u>
- diluted		<u><b>4.4p</b></u>		<u><b>4.4p</b></u>

**GROUP PROFIT AND LOSS ACCOUNT**  
for the nine months ended December 31, 2004

(unaudited)	Notes	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items (note 4) £m	Total £m
<b>Group turnover</b>	2	<b>13,753</b>	-	13,753
Other operating income		132	-	132
Operating costs	3	<u>(11,760)</u>	<u>(42)</u>	<u>(11,802)</u>
Group operating profit (loss)	2	<b>2,125</b>	(42)	2,083
Group's share of operating losses of associates and joint ventures		<u>(8)</u>	<u>(25)</u>	<u>(33)</u>
Total operating profit (loss)		<b>2,117</b>	(67)	2,050
Profit on sale of fixed asset investments and group undertakings		-	312	312
Profit on sale of property fixed assets		22	-	22
Net interest payable	5	<u>(611)</u>	<u>-</u>	<u>(611)</u>
<b>Profit before taxation</b>		<b>1,528</b>	245	1,773
<b>Taxation</b>		<u>(396)</u>	<u>8</u>	<u>(388)</u>
<b>Profit after taxation</b>		<b>1,132</b>	253	1,385
Minority interests		<u>1</u>	<u>-</u>	<u>1</u>
<b>Profit attributable to shareholders</b>		<b><u>1,133</u></b>	<b><u>253</u></b>	<b>1,386</b>
Dividends				<u>(332)</u>
<b>Retained profit for the period</b>				<b><u>1,054</u></b>
<b>Earnings per share</b>	6			
- basic		<u>13.3p</u>		<u>16.2p</u>
- diluted		<u>13.2p</u>		<u>16.1p</u>

**GROUP PROFIT AND LOSS ACCOUNT**  
for the nine months ended December 31, 2003

(unaudited, restated – see note 1)	Notes	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items (note 4) £m	Total £m
<b>Group turnover</b>	2	<b>13,732</b>	-	13,732
Other operating income		133	-	133
Operating costs	3	<u>(11,647)</u>	<u>(9)</u>	<u>(11,656)</u>
Group operating profit (loss)	2	<b>2,218</b>	(9)	2,209
Group's share of operating losses of associates and joint ventures		<u>(2)</u>	<u>-</u>	<u>(2)</u>
Total operating profit (loss)		<b>2,216</b>	(9)	2,207
Profit on sale of fixed asset investments and group undertakings		-	32	32
Profit on sale of property fixed assets		2	-	2
Net interest payable	5	<u>(664)</u>	<u>(55)</u>	<u>(719)</u>
<b>Profit (loss) before taxation</b>		<b>1,554</b>	(32)	1,522
<b>Taxation</b>		<u>(445)</u>	<u>27</u>	<u>(418)</u>
<b>Profit (loss) after taxation</b>		<b>1,109</b>	(5)	1,104
Minority interests		<u>7</u>	<u>-</u>	<u>7</u>
<b>Profit (loss) attributable to shareholders</b>		<b><u>1,116</u></b>	<u>(5)</u>	1,111
Dividends				<u>(278)</u>
<b>Retained profit for the period</b>				<u><u>833</u></u>
<b>Earnings per share</b>	6			
- basic		<u><u>13.0p</u></u>		<u><u>12.9p</u></u>
- diluted		<u><u>12.9p</u></u>		<u><u>12.8p</u></u>

**GROUP CASH FLOW STATEMENT**  
**for the three months and nine months ended December 31, 2004**

(unaudited)	Third quarter ended December 31		Nine months ended December 31	
	2004 £m	2003 £m	2004 £m	2003 £m
<b>Net cash inflow from operating activities*</b> (note 7)	1,205	1,038	3,824	3,821
<b>Dividends from associates and joint ventures</b>	-	2	1	3
<b>Net cash outflow for returns on investments and servicing of finance**</b>	(380)	(216)	(777)	(675)
<b>Taxation paid</b>	(133)	(176)	(175)	(185)
Purchase of tangible fixed assets	(774)	(680)	(2,312)	(1,882)
Net sale of fixed asset investments	450	66	475	127
Sale of tangible fixed assets	19	15	102	43
<b>Net cash outflow for capital expenditure and financial investments</b>	(305)	(599)	(1,735)	(1,712)
<b>Free cash inflow before acquisitions, disposals and dividends</b>	387	49	1,138	1,252
Acquisitions	(12)	(23)	(35)	(28)
Disposals	1	-	35	1
<b>Net cash outflow for acquisitions and disposals</b>	(11)	(23)	-	(27)
<b>Equity dividends paid</b>	-	-	(454)	(368)
<b>Cash inflow before use of liquid resources and financing</b>	376	26	684	857
<b>Management of liquid resources</b>	465	(235)	554	266
Repurchase of ordinary share capital	(31)	(58)	(130)	(58)
New loans	-	1,320	-	1,320
Repayment of loans	(895)	(1,001)	(1,171)	(2,152)
<b>Net cash (outflow) inflow from financing (Decrease) increase in cash</b>	<u>(926)</u> <u>(85)</u>	<u>261</u> <u>52</u>	<u>(1,301)</u> <u>(63)</u>	<u>(890)</u> <u>233</u>
<b>Decrease (increase) in net debt from cash flows (note 8)</b>	<u>345</u>	<u>(32)</u>	<u>554</u>	<u>799</u>
* Net of deficiency and special pension contributions	-	(362)	(6)	(362)
** Including interest (payments) receipts on restructuring currency swap portfolio	(31)	117	(67)	117



**GROUP BALANCE SHEET**  
**at December 31, 2004**

	December 31 2004 (unaudited) £m	December 31 2003 (restated*) £m	March 31 2004 (restated*) £m
<b>Fixed assets</b>			
Intangible assets	202	184	204
Tangible assets	15,633	15,460	15,487
Investments	<u>120</u>	<u>349</u>	<u>324</u>
	15,955	15,993	16,015
<b>Current assets</b>			
Stocks	119	95	89
Debtors	5,199	5,301	5,189
Investments	4,466	6,236	5,163
Cash at bank and in hand	<u>132</u>	<u>124</u>	<u>109</u>
	<u>9,916</u>	<u>11,756</u>	<u>10,550</u>
<b>Creditors: amounts falling due within one year</b>			
Loans and other borrowings	2,322	2,372	1,271
Other creditors	<u>6,759</u>	<u>6,831</u>	<u>7,252</u>
	<u>9,081</u>	<u>9,203</u>	<u>8,523</u>
<b>Net current assets</b>	<u>835</u>	<u>2,553</u>	<u>2,027</u>
<b>Total assets less current liabilities</b>	<u>16,790</u>	<u>18,546</u>	<u>18,042</u>
<b>Creditors: amounts falling due after more than one year</b>			
Loans and other borrowings	10,216	12,783	12,426
<b>Provisions for liabilities and charges</b>	2,470	2,325	2,504
<b>Minority interests</b>	49	50	46
<b>Capital and reserves (note 9)</b>			
Called up share capital	432	432	432
Reserves	<u>3,623</u>	<u>2,956</u>	<u>2,634</u>
<b>Total equity shareholders' funds</b>	<u>4,055</u>	<u>3,388</u>	<u>3,066</u>
	<u>16,790</u>	<u>18,546</u>	<u>18,042</u>

\*See note 1 for details of restatement.

## NOTES

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### 1 Basis of preparation

The unaudited interim results of BT Group, which are not statutory accounts, have been prepared on the basis of the accounting policies as set out in the Report and Accounts of BT Group plc for the year ended March 31, 2004, except that during the year ending March 31, 2005, the group has adopted UITF Abstract 38 'Accounting for ESOP trusts' and the related amendments to UITF Abstract 17 (revised 2003) 'Employee Share Schemes'. UITF 38 changes the presentation of an entity's own shares held in an ESOP trust from previously being held as assets to being deducted in arriving at shareholders' funds. UITF 17 (revised 2003) requires the amounts recognised in the profit and loss account in respect of share awards to be based on the fair value of shares at the date the award is made rather than the previous treatment of being based on the book value of shares held in the ESOP trusts.

An additional charge of £3 million for the year ended March 31, 2004 and of £3 million for the nine months and £1 million for the quarter ended December 31, 2003 has been made to the group profit and loss account. The effect on the group's balance sheet at March 31, 2004 has been to reduce fixed assets by £53 million, to reduce other creditors by £25 million and to reduce shareholders' funds by £28 million. The effect at December 31, 2003 has been to reduce fixed assets by £53 million, to reduce other creditors by £21 million and to reduce shareholders' funds by £32 million.

The group accounts for the year ended March 31, 2004, on which the auditors issued an unqualified report which did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985, were approved by the Board of Directors on May 19, 2004, published on June 2, 2004 and have been delivered to the Registrar of Companies.

## 2 Results of businesses

### (a) Operating results

	External turnover £m	Internal turnover £m	Group turnover £m	Group operating profit (loss) (ii) £m	EBITDA (ii) £m
<i>Third quarter ended</i>					
<i>December 31, 2004</i>					
BT Retail	2,987	117	3,104	274	302
BT Wholesale	954	1,297	2,251	510	982
BT Global Services	637	906	1,543	9	148
Other	6	-	6	(49)	6
Intra-group items (i)	-	(2,320)	(2,320)	-	-
<b>Total</b>	<u>4,584</u>	<u>-</u>	<u>4,584</u>	<u>744</u>	<u>1,438</u>
<i>Third quarter ended</i>					
<i>December 31, 2003</i>					
<i>(restated – see page 20)</i>					
BT Retail	3,113	77	3,190	321	359
BT Wholesale	865	1,339	2,204	466	947
BT Global Services	591	816	1,407	(22)	133
Other	9	-	9	(23)	34
Intra-group items (i)	-	(2,232)	(2,232)	-	-
<b>Total</b>	<u>4,578</u>	<u>-</u>	<u>4,578</u>	<u>742</u>	<u>1,473</u>
<i>Nine months ended</i>					
<i>December 31, 2004</i>					
BT Retail	9,031	310	9,341	820	916
BT Wholesale	2,847	3,894	6,741	1,451	2,876
BT Global Services	1,856	2,597	4,453	(40)	379
Other	19	-	19	(106)	50
Intra-group items (i)	-	(6,801)	(6,801)	-	-
<b>Total</b>	<u>13,753</u>	<u>-</u>	<u>13,753</u>	<u>2,125</u>	<u>4,221</u>
<i>Nine months ended</i>					
<i>December 31, 2003</i>					
<i>(restated – see page 20)</i>					
BT Retail	9,366	198	9,564	963	1,089
BT Wholesale	2,602	4,062	6,664	1,445	2,873
BT Global Services	1,745	2,388	4,133	(112)	345
Other	19	1	20	(78)	94
Intra-group items (i)	-	(6,649)	(6,649)	-	-
<b>Total</b>	<u>13,732</u>	<u>-</u>	<u>13,732</u>	<u>2,218</u>	<u>4,401</u>

(i) Elimination of intra-group turnover between businesses, which is included in the total turnover of the originating business.

(ii) Before goodwill amortisation and exceptional items.

## 2 Results of businesses *continued*

### (a) Operating results *continued*

There is extensive trading between BT's lines of business and the line of business profitability is dependent on the transfer price levels. The intra-group trading arrangements are subject to review and were changed with effect from April 1, 2004 in certain circumstances to reflect simplification of internal trading flows and reorganisations within the group. The comparative figures for the lines of business have been restated to reflect these changes but there is no impact at a group level. In addition, the group adopted UITF 38 and UITF 17 (revised 2003) which impacted the comparative figures and is discussed further in note 1.

### (b) BT Global Services analysis

	Third quarter ended December 31				Nine months ended December 31	
	2004 £m	2003 £m	Better (worse) £m	%	2004 £m	2003 £m
<b>Group turnover</b>						
Solutions	786	673	113	17	2,235	1,932
C&SI	206	162	44	27	590	468
Global Products	482	468	14	3	1,391	1,344
Global Carrier	237	244	(7)	(3)	727	710
Other and eliminations	<u>(168)</u>	<u>(140)</u>	(28)	(20)	<u>(490)</u>	<u>(321)</u>
	<u>1,543</u>	<u>1,407</u>	136	10	<u>4,453</u>	<u>4,133</u>
<b>EBITDA</b>						
Solutions	84	80	4	5	229	218
C&SI	12	11	1	9	24	20
Global Products	40	29	11	38	107	77
Global Carrier	41	40	1	3	125	112
Other (i)	<u>(29)</u>	<u>(27)</u>	(2)	(7)	<u>(106)</u>	<u>(82)</u>
	<u>148</u>	<u>133</u>	15	11	<u>379</u>	<u>345</u>
<b>Operating profit (loss) (ii)</b>						
Solutions	64	61	3	5	170	161
C&SI	10	9	1	11	18	14
Global Products	(50)	(68)	18	26	(166)	(212)
Global Carrier	20	18	2	11	61	45
Other (i)	<u>(35)</u>	<u>(42)</u>	7	17	<u>(123)</u>	<u>(120)</u>
	<u>9</u>	<u>(22)</u>	31	n/m	<u>(40)</u>	<u>(112)</u>
Capital expenditure	<u>146</u>	<u>115</u>	(31)	(27)	<u>464</u>	<u>319</u>

(i) Other is after charging leaver costs of £2m in the third quarter (£6m last year) and £18m in the nine months ended December 31, 2004 (£19m last year).

(ii) Before goodwill amortisation.

## 2 Results of businesses *continued*

### (c) Group turnover analysis

	Third quarter ended December 31				Nine months ended December 31	
	2004 £m	2003 £m	Better (worse) £m	%	2004 £m	2003 £m
Traditional	3,449	3,740	(291)	(8)	10,649	11,423
New wave	<u>1,135</u>	<u>838</u>	297	35	<u>3,104</u>	<u>2,309</u>
	<u>4,584</u>	<u>4,578</u>	6	-	<u>13,753</u>	<u>13,732</u>
Consumer	1,409	1,505	(96)	(6)	4,255	4,500
Business	606	636	(30)	(5)	1,858	1,940
Major Corporate	1,473	1,407	66	5	4,341	4,236
Wholesale/Carrier	1,090	1,021	69	7	3,280	3,037
Other	<u>6</u>	<u>9</u>	(3)	(33)	<u>19</u>	<u>19</u>
	<u>4,584</u>	<u>4,578</u>	6	-	<u>13,753</u>	<u>13,732</u>

*Note:* New wave includes the external new wave turnover of BT Retail (ICT, broadband, mobility and classified directories), BT Wholesale (broadband and managed services), the external turnover of Global Solutions and C&SI.

Consumer includes the external turnover of BT Retail from consumer customers.

Business includes the external turnover of BT Retail from SME customers.

Major Corporate includes the external turnover of BT Retail from major corporate customers and the external turnover of BT Global Services, with the exception of Global Carrier.

Wholesale/Carrier includes the external turnover of BT Wholesale and Global Carrier.

### (d) Capital expenditure on plant, equipment and motor vehicle additions

	Third quarter ended December 31		Nine months ended December 31	
	2004 £m	2003 £m	2004 £m	2003 £m
BT Retail	40	32	104	72
BT Wholesale				
Access	269	270	812	717
Switch	31	37	86	70
Transmission	73	49	168	149
Products/systems support	<u>140</u>	<u>133</u>	<u>467</u>	<u>329</u>
	513	489	1,533	1,265
BT Global Services				
C&SI and Solutions	66	19	174	80
UK Networks	24	33	96	92
Other	<u>56</u>	<u>63</u>	<u>194</u>	<u>147</u>
	146	115	464	319
Other (including fleet vehicles and property)	<u>71</u>	<u>63</u>	<u>166</u>	<u>173</u>
<b>Total</b>	<u>770</u>	<u>699</u>	<u>2,267</u>	<u>1,829</u>

### 3 Operating costs

	Third quarter ended December 31		Nine months ended December 31	
	2004	2003 (restated)	2004	2003 (restated)
	£m	£m	£m	£m
Net staff costs before leaver costs	902	866	2,608	2,661
Leaver costs	<u>12</u>	<u>26</u>	<u>122</u>	<u>53</u>
Net staff costs	914	892	2,730	2,714
Depreciation	694	731	2,095	2,181
Payments to telecommunication operators	881	924	2,834	2,990
Other operating costs	<u>1,399</u>	<u>1,326</u>	<u>4,101</u>	<u>3,762</u>
<b>Total before goodwill amortisation and exceptional items</b>	3,888	3,873	11,760	11,647
Goodwill amortisation	4	3	12	9
Exceptional items	<u>10</u>	<u>-</u>	<u>30</u>	<u>-</u>
<b>Total</b>	<u>3,902</u>	<u>3,876</u>	<u>11,802</u>	<u>11,656</u>

### 4 Exceptional items and goodwill amortisation

	Third quarter ended December 31		Nine months ended December 31	
	2004	2003	2004	2003
	£m	£m	£m	£m
Exceptional operating costs	(10)	-	(30)	-
Impairment of fixed assets of joint ventures	(25)	-	(25)	-
Profit on sale of fixed asset investments and group undertakings	284	33	312	32
Net interest payable	-	(37)	-	(55)
Goodwill amortisation	<u>(4)</u>	<u>(3)</u>	<u>(12)</u>	<u>(9)</u>
Net credit (charge) before tax and minority interests	<u>245</u>	<u>(7)</u>	<u>245</u>	<u>(32)</u>

### 5 Net interest payable

	Third quarter ended December 31		Nine months ended December 31	
	2004	2003	2004	2003
	£m	£m	£m	£m
Group	259	315	786	955
Joint ventures and associates	<u>5</u>	<u>4</u>	<u>14</u>	<u>14</u>
Total interest payable	264	319	800	969
Interest receivable	<u>(64)</u>	<u>(59)</u>	<u>(189)</u>	<u>(250)</u>
Net interest payable	<u>200</u>	<u>260</u>	<u>611</u>	<u>719</u>
Analysed:				
Before exceptional items	200	223	611	664
Exceptional items	<u>-</u>	<u>37</u>	<u>-</u>	<u>55</u>
Total	<u>200</u>	<u>260</u>	<u>611</u>	<u>719</u>

## 6 Earnings per share

The basic earnings per share are 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:

	Third quarter ended December 31		Nine months ended December 31	
	2004	2003	2004	2003
	millions of shares		millions of shares	
Basic	8,512	8,629	8,535	8,629
Diluted	8,579	8,682	8,591	8,686

## 7 Reconciliation of operating profit to operating cash flow

	Third quarter ended December 31		Nine months ended December 31	
	2004	2003	2004	2003
	<i>(restated)</i>		<i>(restated)</i>	
	£m	£m	£m	£m
Group operating profit	730	739	2,083	2,209
Depreciation and amortisation	698	734	2,108	2,192
Changes in working capital	(240)	(58)	(441)	(279)
Provision movements, pensions and other	<u>17</u>	<u>(377)</u>	<u>74</u>	<u>(301)</u>
Net cash inflow from operating activities	<u>1,205</u>	<u>1,038</u>	<u>3,824</u>	<u>3,821</u>

## 8 Net debt

### (a) Analysis

	At December 31		At March 31
	2004	2003	2004
	£m	£m	£m
Long-term loans and other borrowings falling due after more than one year	10,216	12,783	12,426
Short-term borrowings and long-term loans and other borrowings falling due within one year	<u>2,322</u>	<u>2,372</u>	<u>1,271</u>
Total debt	12,538	15,155	13,697
Short-term investments	(4,466)	(6,236)	(5,163)
Cash at bank	<u>(132)</u>	<u>(124)</u>	<u>(109)</u>
Net debt at end of period	<u>7,940</u>	<u>8,795</u>	<u>8,425</u>

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

	Third quarter ended		Nine months ended	
	December 31		December 31	
	2004	2003	2004	2003
	£m	£m	£m	£m
Net debt at beginning of period	8,267	8,768	8,425	9,573
(Decrease) increase in net debt resulting from cash flows	(345)	32	(554)	(799)
Currency and other movements	-	(13)	-	(11)
Other non-cash movements	<u>18</u>	<u>8</u>	<u>69</u>	<u>32</u>
Net debt at end of period	<u>7,940</u>	<u>8,795</u>	<u>7,940</u>	<u>8,795</u>

## 9 Share capital and reserves

	Share capital	Reserves	Total
	(£m)	(restated) (£m)	(restated) (£m)
Balances at April 1, 2004	432	2,634	3,066
Profit for the nine months ended December 31, 2004	-	1,386	1,386
Dividends	-	(332)	(332)
Currency movements	-	47	47
Other	-	(112)	(112)
Balances at December 31, 2004	<u>432</u>	<u>3,623</u>	<u>4,055</u>



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

	Third quarter ended December 31		Nine months ended December 31	
	2004	2003 (restated)	2004	2003 (restated)
	£m	£m	£m	£m
Group operating profit	730	739	2,083	2,209
Exceptional items	10	-	30	-
Depreciation	694	731	2,096	2,183
Goodwill amortisation	4	3	12	9
EBITDA before exceptional items	<u>1,438</u>	<u>1,473</u>	<u>4,221</u>	<u>4,401</u>

## 11 United States Generally Accepted Accounting Principles

The results set out above have been prepared in accordance with accounting principles generally accepted in the United Kingdom. The table below sets out the results calculated in accordance with United States Generally Accepted Accounting Principles.

	Third quarter ended December 31		Nine months ended December 31	
	2004	2003	2004	2003
Net income attributable to Shareholders including exceptional items (£m)	503	132	983	510
Earnings per ADS (£)				
- basic	0.59	0.15	1.15	0.59
- diluted	0.58	0.15	1.14	0.59

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

Shareholders' equity, calculated in accordance with United States Generally Accepted Accounting Principles, is a £1,304m deficit at December 31, 2004 (December 31, 2003 - £2,484m, March 31, 2004 - £1,455m).

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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 turnover from broadband, ICT solutions, mobility and managed services growth; expectations regarding broadband DSL line connections; implementation of BT's 21<sup>st</sup> century network; completion of the acquisition of Infonet; expectations regarding cost transformation and cost efficiency; and delivery of long-term growth in shareholder value.

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; conditions, including regulatory clearances, to completion of the acquisition of Infonet not being satisfied; 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.

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