

February 7, 2008

THIRD QUARTER AND NINE MONTHS RESULTS TO DECEMBER 31, 2007

THIRD QUARTER HIGHLIGHTS

- Revenue of £5,154 million, up 1 per cent
- New wave revenue of £2,014 million, up 7 per cent
- EBITDA before specific items¹ and leaver costs of £1,469 million, up 2 per cent
- Global Services EBITDA² margin increases to 10.9 per cent
- Profit after taxation, before specific items¹ and leaver costs of £475 million, down 2 per cent
- Earnings per share before specific items¹ and leaver costs of 5.9 pence, up 2 per cent
- Continued strong broadband net additions³ of 511,000 of which BT's retail share was 35 per cent

The income statement, cash flow statement and balance sheet from which this information is extracted are set out on pages 17 to 23.

Chief Executive's statement

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

“This has been another solid performance. We have delivered our twenty third consecutive quarter of year on year earnings per share² growth.

BT Global Services has shifted up a gear, delivering real growth in EBITDA² margins. We won total contracts worth £1.9 billion in the quarter, and revenues outside of the UK grew by 22 per cent.

We remain the UK's number one retail broadband provider with 35 per cent of the installed DSL and LLU base, and BT Vision customers more than doubled in the quarter.

We expect continued growth in revenue, EBITDA², earnings per share² and dividends, and a significant free cash inflow in the fourth quarter.”

¹Specific items are significant one off or unusual items as defined in note 4 on pages 27 to 28.

²Before specific items and leaver costs.

³DSL and LLU connections.

**RESULTS FOR THE THIRD QUARTER AND NINE MONTHS
TO DECEMBER 31, 2007**

	Third quarter			Nine months		
	2007 £m	2006 £m	Better (worse) %	2007 £m	2006 £m	Better (worse) %
Revenue	5,154	5,126	1	15,282	14,931	2
EBITDA						
- before specific items and leaver costs	1,469	1,439	2	4,342	4,243	2
- before specific items	1,449	1,412	3	4,271	4,159	3
Operating profit						
- before specific items and leaver costs	737	698	6	2,208	2,096	5
- before specific items	717	671	7	2,137	2,012	6
- after specific items	582	555	5	1,761	1,873	(6)
Profit before taxation						
- before specific items and leaver costs	601	643	(7)	1,919	1,947	(1)
- before specific items	581	616	(6)	1,848	1,863	(1)
- after specific items	447	639	(30)	1,482	1,883	(21)
Earnings per share						
- before specific items and leaver costs	5.9p	5.8p	2	18.0p	17.6p	2
- before specific items	5.7p	5.6p	2	17.4p	16.9p	3
- after specific items	4.5p	17.6p	(74)	16.1p	28.9p	(44)
Capital expenditure	863	815	(6)	2,565	2,342	(10)
Free cash outflow	(221)	(525) ²	58	(202) ¹	(204) ²	1
Net debt				10,175	8,796	(16)

¹Includes payment of pension deficiency contributions of £320 million and tax receipts of £504 million.

²Includes payment of pension deficiency contributions of £500 million.

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 pages 27 to 28.

The income statement, cash flow statement and balance sheet are provided on pages 17 to 23. A reconciliation of EBITDA before specific items to group operating profit is provided on page 32. A definition and reconciliation of free cash flow and net debt are provided on pages 29 to 31.

GROUP RESULTS

Revenue was 1 per cent higher at £5,154 million in the quarter with continued growth in new wave revenue. EBITDA before specific items and leaver costs grew by 2 per cent, the eighth consecutive quarter of year on year growth. Earnings per share before specific items and leaver costs increased by 2 per cent to 5.9 pence, the twenty third consecutive quarter of year on year growth.

New wave revenue at £2,014 million was 7 per cent higher than last year and accounted for 39 per cent of the group's revenue. New wave revenue is mainly generated from networked IT services and broadband.

BT Global Services contract wins were £1.9 billion in the third quarter, with £8.6 billion achieved over the last twelve months.

BT had 12.2 million wholesale broadband connections (DSL and LLU) at December 31, 2007, including 3.7 million local loop unbundled lines. This represents an increase of 2.2 million wholesale broadband connections year on year. There were 511,000 connections in the third quarter with BT's retail share of those net additions at 177,000, being 35 per cent. BT Retail remains the UK's number one retail broadband provider and its total broadband customer base was 4,251,000 at December 31, 2007.

Revenue

Revenue from the group's traditional businesses declined by 3 per cent. This decline includes the impact of a reduction in low margin transit and premium rate services volumes, which accounted for a 2 percentage point reduction. The 1 per cent underlying decline is consistent with recent quarters and reflects a robust defence of the traditional business in a highly competitive market.

New wave revenue was 7 per cent higher than last year, driven by growth of 9 per cent in networked IT services revenue and 6 per cent in broadband revenue.

Revenue from our Major corporate (UK and international) customer segment grew by 5 per cent. Migration from traditional voice only services to networked IT services continued with new wave revenue representing 64 per cent of all Major corporate revenue.

Revenue from our Business customer segment (comprising smaller and medium sized UK businesses) grew strongly by 7 per cent year on year, continuing the improving trend. New wave revenue grew by 16 per cent.

Revenue from our Consumer customer segment was 1 per cent lower year on year, continuing the improved performance of the last year. Growth in new wave revenue of 24 per

cent continues to demonstrate our success in reducing our dependence on traditional revenue which declined by 6 per cent in the quarter.

The 12 month rolling average revenue per consumer household increased by £2 in the quarter to £273, the eighth consecutive quarter of growth. This is a reflection of more of our customers taking multiple services from BT. Increased penetration of broadband and the growth of value added propositions have more than offset the lower call revenues.

Wholesale (UK and Global Carrier) revenue decreased by 6 per cent as a result of the impact of anticipated volume and price reductions on DSL broadband and the reduction in low margin transit and premium rate services revenues, which were only partially offset by migrations to local loop unbundling (LLU) arrangements.

Operating results

Group operating costs before specific items and leaver costs were held broadly flat year on year at £4,500 million. Staff costs before leaver costs were reduced by 1 per cent to £1,273 million, with the savings from the group's efficiency programmes more than offsetting the impact of pay inflation, the cost of additional staff needed to support networked IT services contracts, increased network and 21st Century Network (21CN) activities, acquisitions and service improvements. Leaver costs before specific items were £20 million in the quarter (£27 million last year). Payments to other telecommunication operators decreased by 3 per cent to £1,023 million mainly due to the reduction in transit and premium rate services. Other operating costs before specific items of £1,649 million increased by £56 million, principally due to increased costs of sales from growth in networked IT and other new wave services and increased levels of network and 21CN activities, which were largely offset by cost savings from efficiency programmes. Efficiency savings in the quarter were £193 million, £468 million in the year to date, and we remain on target to achieve at least £600 million of savings in the full year. Depreciation and amortisation decreased by 1 per cent year on year to £732 million as more traditional assets become fully depreciated, the effect of which has been partially offset by higher depreciation on 21CN related assets as they start to be brought into use.

Group operating profit before specific items and leaver costs increased by 6 per cent to £737 million. Group operating profit margin before specific items and leaver costs increased to 14.3 per cent compared with 13.6 per cent last year, the fourth consecutive quarter of year on year margin growth.

Earnings

Net finance expense before specific items was £134 million, an increase of £72 million against last year. This includes net finance income associated with the group's defined benefit pension scheme which was flat year on year at £105 million. The increase in net finance expense primarily reflects the higher net debt, higher interest on variable rate borrowings and fair value movements on hedges that do not qualify for hedge accounting under IAS 39. The fair value movements include a charge of £26 million on a low cost borrowing transaction which is marginally earnings positive after tax in the year.

The effective tax rate on the profit before specific items was 20.7 per cent (24.4 per cent last year) reflecting a year to date rate of 23.5 per cent, compared with the UK statutory rate of 30 per cent, reflecting the continued focus on tax efficiency within the group.

Profit after taxation, before specific items and leaver costs of £475 million decreased by 2 per cent, year on year.

Earnings per share before specific items and leaver costs increased by 2 per cent to 5.9 pence.

Specific items

Specific items are defined in note 4 on pages 27 to 28. There was a net operating charge before tax of £134 million (£23 million credit last year) and a net charge after tax of £96 million (£992 million credit last year). Restructuring costs of £76 million (£nil last year) relating to the group's transformation and reorganisation activities were incurred in the quarter and mainly comprised manager leaver costs and transformation programme costs. There was a £50 million (£61 million last year) charge as a result of the completion of the review of circuit inventory and other working capital balances. Losses on business disposals were £9 million (£2 million profit last year).

Earnings per share after specific items were 4.5 pence in the quarter (17.6 pence last year), reflecting the impact of the current and prior year specific items.

Cash flow and net debt

Net cash inflow from operating activities in the third quarter amounted to £1,000 million compared with £604 million last year. The free cash outflow of £221 million compared with an outflow of £525 million last year, which included the payment of pension deficiency contributions of £500 million. The free cash outflow is primarily the result of the cash outflow relating to business transformation programme payments of £83 million (£nil last year) together

with the higher net working capital outflow of £294 million (£212 million last year). We expect a significant working capital inflow during the fourth quarter. The cash outflow for the purchase of property, plant and equipment amounted to £897 million (£794 million last year). We expect capital expenditure for the full year to be at a similar level to last year.

The net cash outflow on acquisition of subsidiaries in the third quarter was £42 million (£51 million last year) and related principally to the acquisition of INS Group SA and the IT infrastructure division of CS Communications and Systèmes. During the quarter the group raised new long term borrowings of £1,309 million at a combined annualised interest rate of 6.5 per cent. The group repurchased 96 million shares (33 million last year) for a total consideration of £281 million (£95 million last year), resulting in a net cash outflow of £283 million (£105 million last year). Net debt was £10,175 million at December 31, 2007 compared with £8,796 million at December 31, 2006. Free cash flow and net debt are defined and reconciled in notes 7 and 8 on pages 29 to 31.

Pensions

The IAS 19 net pension asset at December 31, 2007 was a surplus of £0.7 billion, net of tax (£0.9 billion gross of tax), compared with a deficit of £1.1 billion at December 31, 2006 (£1.6 billion gross of tax), an improvement of £1.8 billion, net of tax (£2.5 billion gross of tax). The BT Pension Scheme had assets of £39.7 billion at December 31, 2007 (£37.8 billion at December 31, 2006).

The scheme's exposure to equities has been reduced through a continuing de-risking strategy. This hedges the downside risks associated with the scheme's equity exposure, from approximately 50 per cent to close to 40 per cent of the scheme's assets.

21st Century Network

BT's 21CN will enable BT to deliver faster, more sophisticated and more resilient services for our customers.

Responding to feedback, BT is focusing its activity on delivering tangible customer benefits that will drive voluntary migration onto the new platform. Only after a period of voluntary upgrades will BT implement a programme of legacy platform and service decommissioning. This will not impact the overall targets of 21CN.

The 21CN programme will deliver four new strategic next generation services during the current calendar year.

Next Generation Ethernet will deliver carrier class, high speed data connectivity to corporate customers and mobile operators. This service was launched to Communication Providers (CPs) in February 2008.

Wholesale Broadband Connect, the next generation wholesale broadband service, will provide customers with speeds up to 24Mb and more flexible broadband capability. Beta trials of the new service are currently underway in the West Midlands and the service will launch this spring.

A new open Innovation Platform that will enable BT, other CPs and thousands of third party developers around the world to create software applications based on BT's 21CN capabilities will launch this summer.

Next generation converged broadband and voice services, which give customers a richer array of voice service capabilities, will launch from the end of 2008.

The rebuild of the core UK national infrastructure continues and over 35 per cent of the infrastructure has now been renewed. Outside the UK, the BT Global 21CN platform is now available in 167 countries worldwide.

Line of business results

In April 2007, BT announced its plans to accelerate its transformation into a communications services company delivering software driven services over broadband. Key to this acceleration was the creation of a new organisational structure that would enable the delivery of faster, more resilient and cost effective services to customers. The new organisational structure is based around two new internal operating divisions, namely BT Design and BT Operate, which support the existing four customer-facing lines of business. BT Design is responsible for the design and development of new services and BT Operate is responsible for their deployment and operation. The divisions will help BT deliver software driven products over next generation networks as well as drive the achievement of cost savings.

BT moved to this new structure with effect from October 1, 2007 and, as a result, has changed the presentation of its third quarter line of business results to reflect the impact of the transformation. On January 23, 2008, BT provided historical results for the lines of business for the 2006/07 financial year and for the first half of the 2007/08 financial year on a quarterly basis under the new structure. The main effects are that a significant amount of intra-group trading is removed and there is more clarity of the end to end profitability of the lines of business, downstream of Openreach. Trading between Openreach and the other parts of the group is broadly unchanged. Comparatives have been restated on the same basis to assist in

understanding the year on year performance. Overall group results are not affected by the change.

Outlook

We expect continued growth in revenue, EBITDA before specific items and leaver costs, earnings per share before specific items and leaver costs, and dividends and a significant free cash inflow in the fourth quarter. This underpins our confidence in delivering our previously stated outlook of continued growth in revenue, EBITDA before specific items and leaver costs, earnings per share before specific items and leaver costs, and dividends for the year.

The fourth quarter and full year results are expected to be announced on May 15, 2008.

LINE OF BUSINESS RESULTS

BT Global Services

	Third quarter ended December 31				Nine months ended December 31	
	2007 £m	2006* £m	Better (worse) £m %		2007 £m	2006* £m
Revenue	1,965	1,848	117	6	5,663	5,287
Gross profit	695	660	35	5	2,020	1,969
SG&A before leaver costs	<u>480</u>	<u>485</u>	5	1	<u>1,441</u>	<u>1,463</u>
EBITDA before leaver costs	215	175	40	23	579	506
Depreciation and amortisation	<u>193</u>	<u>172</u>	(21)	(12)	<u>543</u>	<u>474</u>
Operating profit before leaver costs	<u><u>22</u></u>	<u><u>3</u></u>	19	n/m	<u><u>36</u></u>	<u><u>32</u></u>

*Restated to reflect changes to the group's organisational structure and internal trading arrangements

BT Global Services revenue grew by 6 per cent in the quarter to £1,965 million and EBITDA before leaver costs grew by 23 per cent to £215 million, resulting in an increase in EBITDA margin to 10.9 per cent compared with 9.5 per cent last year.

The strong EBITDA growth was driven by higher margins on maturing contracts and continued cost reduction activity, with gross profit up by 5 per cent to £695 million and SG&A costs £5 million lower at £480 million. Depreciation and amortisation charges increased by £21 million to £193 million, due to customer related capital expenditure last year and recent business acquisitions. Overall, this took operating profit before leaver costs to £22 million, an increase of £19 million from the previous year.

New wave revenue rose by £138 million to £1,628 million, an increase of 9 per cent. Outside the UK, the trend of strong international performance continued with revenue growing by 22 per cent. Total MPLS revenue rose by 29 per cent to £213 million.

Total orders in the quarter amounted to £1.9 billion, bringing the value of orders achieved over the last twelve months to £8.6 billion. Networked IT services contract orders were £1.3 billion in the quarter, bringing contract orders for the last twelve months to £5.1 billion. These included a five year contract with international oil services company, Aibel Group, to provide a global service desk for end users and a global IP converged network and messaging infrastructure supporting collaborative applications; and a three year contract to supply a global MPLS network to Wolseley plc, a leading supplier of construction products, materials and services, connecting their operations across 19 locations around the world. The Federal State of Saxony has become the third German state to source communications services from BT on a

large scale. In total, 136 new corporate customers outside the UK signed orders with BT in the quarter.

Expansion within Europe continued with the acquisition of both INS Group SA (INS) and the IT infrastructure division of CS Communications and Systèmes (CS). The acquisition of INS, a Belgium based network and systems integrator, will strengthen BT's operations in the Benelux region and enhance BT's global position in the LAN and IP telephony services market. CS is a French IT systems and network services provider. The acquisition of its critical infrastructure division will improve BT's ability to provide clients with a full range of offerings for building and managing IT infrastructures, including consulting, network integration, insourcing services and outsourcing, while growing its customer base in France and beyond. In December, BT announced the proposed acquisition of Frontline, one of the leading providers of end to end IT services within the Asia Pacific region. Based in Singapore and with operations throughout the region, Frontline strongly complements BT's existing networked IT services capabilities and expands BT's global footprint.

BT continued to make strong progress in the delivery of its three contracts for the NHS National Programme for IT (NPfIT). In London, where BT is working with the NHS to modernise IT systems and services across the capital, it installed a further 12 systems. Additionally, 50 trusts in London will benefit from significantly reduced call charges after signing up to connect their voice networks to N3, the national broadband network that BT has rolled out as part of the NPfIT.

The first set of patient NHS Summary Care Records have been created on the Spine - the secure database and messaging system BT has built and is managing for the NHS - and a further two software releases have also been delivered on the Spine, to improve its scalability and safeguard future performance.

BT Retail

	Third quarter ended December 31				Nine months ended December 31	
	2007	2006*	Better (worse)		2007	2006*
	£m	£m	£m	%	£m	£m
Revenue	<u>2,146</u>	<u>2,108</u>	38	2	<u>6,319</u>	<u>6,223</u>
Gross profit	802	751	51	7	2,329	2,182
SG&A before leaver costs	<u>400</u>	<u>391</u>	(9)	(2)	<u>1,209</u>	<u>1,164</u>
EBITDA before leaver costs	402	360	42	12	1,120	1,018
Depreciation and amortisation	<u>111</u>	<u>115</u>	4	3	<u>326</u>	<u>324</u>
Operating profit before leaver costs	<u>291</u>	<u>245</u>	46	19	<u>794</u>	<u>694</u>

*Restated to reflect changes to the group's organisational structure and internal trading arrangements

BT Retail revenue increased by 2 per cent year on year, the second successive quarter of growth, reflecting the success of the group's strategy to grow new wave revenue whilst defending traditional revenue streams. Gross profit margin improved by 1.8 percentage points as a result of an improved product mix, higher added value sales and cost of sales efficiencies. SG&A costs have increased year on year reflecting increased expenditure in marketing and customer service. EBITDA before leaver costs has grown by 12 per cent, the tenth consecutive quarter of growth, and operating profit before leaver costs increased by 19 per cent.

New wave revenue grew by 18 per cent, driven mainly by broadband and networked IT services, and was partially offset by a decline in traditional revenue of 3 per cent. New wave revenue was 24 per cent of total revenue representing an increase of 3 percentage points year on year.

Revenue from our Consumer business unit declined by 1 per cent, continuing the improved performance of the last year. We remain committed to continually offering better value to our customers. The Ofcom annual review showed, against an environment in which other utility sectors have seen price rises significantly above inflation, the cost of fixed line services has actually fallen 30 per cent between 2002 and 2006. We have focussed on significantly reducing the prices of BT packages to give customers value and certainty. We recently announced that the price of our 'unlimited anytime' call package would be reduced to £5.95 per month or just 20p per day, representing a reduction of almost 60 per cent in just two years. All of our customers can also now have unlimited evening and weekend calls to fixed line numbers for no extra charge and we believe these moves will further enhance our competitive position.

Broadband revenue grew by 25 per cent and net additions were 177,000, taking BT to 4.3 million customers, retaining its status as the UK's most popular broadband supplier. BT's

retail market share of net adds of DSL and LLU in the quarter was 35 per cent, the fifth consecutive quarter over 30 per cent, despite the highly competitive broadband market. We continue to offer customers more than just an access product, with a wide range of additional services. During the quarter we launched a new Home Hub, offering improved functionality and a smaller sleek design, and BT Fon. BT Fon provides a facility for every BT Total Broadband customer who agrees to share a small secure section of their home broadband connection, to benefit outside the home from sharing the connection of another Fon member, using BT Openzone and using Fon WiFi around the world. BT Fon is complementary to our already successful Openzone programme which gives our broadband customers free Openzone minutes so they can use their broadband outside the home or office.

Openzone usage continued to grow significantly with usage reaching almost one million minutes per day. BT also completed the acquisition of Square Mile Marina Limited, with contracts to offer public WiFi in 39 UK and Jersey Marinas, and launched the Openzone 500 Americas and Europe international vouchers, offering WiFi access across WiFi roaming partners and Openzone access to hotels, airports and other travel hubs for an all inclusive rate.

The roll out of our next generation television service, BT Vision, accelerated in line with plans. During the quarter the number of customers more than doubled to 120,000, and is now more than 150,000. We also agreed additional content with Paramount, giving access to an additional library of over 150 new films, and in January with Disney, giving access to major US television series such as “Desperate Housewives” and “Lost”. We also announced a partnership deal with Microsoft to bring together BT Vision and Microsoft’s Xbox 360 games and entertainment system which will allow our broadband customers to receive the best in high definition gaming, television and movies through an Xbox 360.

Our Small Medium Enterprise (SME) business unit achieved revenue growth of 7 per cent in the quarter and again delivered strong EBITDA growth. SME customers continue to opt for our all inclusive packages with One Plan which combines calls and lines, broadband and mobile, for small businesses. One Plan achieved 20,000 additions in the quarter, a growth of over 60 per cent on last quarter, and now over 38 per cent of our SME customers choose some form of value added package from BT.

During the quarter our SME advertising campaign has helped position BT as a key provider of services to UK SMEs. Customer numbers on Tradespace grew to 39,000 and the expansion of the BT Business suite of web based tools for small businesses has continued, with the launch of BT Web Expenses.

The integration of BT Basilica and BT Lynx has enhanced BT's capabilities in the unified communications field, adding IT consulting, design, configuration and implementation services to BT's existing portfolio and broadening our addressable market with some significant wins in the quarter.

The Enterprises business unit delivered strong EBITDA growth, up 14 per cent over the prior year. Within the division, Conferencing continues to deliver strong growth and a number of major contracts were secured including a worldwide contract with EMC. BT Expedite revenue increased 47 per cent and the recently announced acquisition of Fresca Limited will enhance the product set and open new market opportunities. Dabs.com revenue for the Christmas trading period grew by 14 per cent compared with the same period last year.

BT Ireland recorded a strong performance boosted by broadband growth and enhanced efficiencies, resulting in an increase to EBITDA of 20 per cent.

BT Wholesale

	Third quarter ended December 31				Nine months ended December 31	
	2007	2006*	Better (worse)		2007	2006*
	£m	£m	£m	%	£m	£m
External revenue	890	1,041	(151)	(15)	2,847	3,093
Internal revenue	<u>315</u>	<u>320</u>	(5)	(2)	<u>932</u>	<u>958</u>
Revenue	<u>1,205</u>	<u>1,361</u>	(156)	(11)	<u>3,779</u>	<u>4,051</u>
Gross profit	409	451	(42)	(9)	1,270	1,357
SG&A before leaver costs	<u>65</u>	<u>72</u>	7	10	<u>189</u>	<u>219</u>
EBITDA before leaver costs	344	379	(35)	(9)	1,081	1,138
Depreciation and amortisation	<u>224</u>	<u>229</u>	5	2	<u>643</u>	<u>676</u>
Operating profit before leaver costs	<u>120</u>	<u>150</u>	(30)	(20)	<u>438</u>	<u>462</u>

*Restated to reflect changes to the group's organisational structure and internal trading arrangements

BT Wholesale external revenue in the third quarter decreased by £151 million to £890 million. This was mainly due to a decline of £68 million in low margin transit and premium rate services revenues as well as a reduction in broadband revenue of £51 million as a result of the anticipated price reductions in broadband (£16 million) and volume decreases as a result of LLU migrations (£35 million). It is expected that low margin transit revenues will continue to decline for a few more quarters as other CPs increasingly interconnect directly. Internal revenue decreased by 2 per cent to £315 million, driven by lower line card and access electronics sales volumes to Openreach.

Gross profit decreased by 9 per cent to £409 million, which principally reflects the effect of lower broadband revenues. SG&A costs were reduced by 10 per cent as a result of headcount driven efficiency activities.

EBITDA before leaver costs decreased by 9 per cent to £344 million. Depreciation decreased by 2 per cent year on year to £224 million. Operating profit before leaver costs decreased by £30 million year on year to £120 million.

The wholesale communications industry is in transition, reflecting the ongoing migration from traditional to next generation communications services. BT Wholesale's strategy is to support customers through this transition, generating future growth from the delivery of long term managed network solutions contracts to other CPs. The strategy took another step forward when, during the quarter, a new managed services contract was signed with Virgin Media to manage its traditional voice services in the UK. Under the terms of the five year, £98 million contract, BT will manage around 55 billion voice minutes annually for Virgin Media, or some 20 per cent of all voice calls made in the UK. BT Wholesale also signed contracts with both Jersey Telecom and Faroese Telecom during the quarter to supply managed submarine fibre connections from Jersey and the Faroe Islands to the UK mainland. These are the latest of a number of major managed network solution contracts signed this financial year.

BT Wholesale also remains focused on ensuring its product portfolio remains competitive. It has launched and taken orders for next generation wholesale ethernet. Subsequent upgrades will enhance both the functionality and footprint of the new service, which will be delivered over BT's 21CN.

Trials of the next generation broadband service, Wholesale Broadband Connect are progressing with 10 CPs actively involved in trials. BT Wholesale plans to launch the new service commercially from the spring of 2008, with a planned footprint rising to around 50 per cent of the addressable UK market within the year following the launch.

Openreach

	Third quarter ended December 31				Nine months ended December 31	
	2007	2006*	Better (worse)		2007	2006*
	£m	£m	£m	%	£m	£m
External revenue	218	189	29	15	637	481
Revenue from other BT lines of business	<u>1,100</u>	<u>1,137</u>	(37)	(3)	<u>3,309</u>	<u>3,406</u>
Revenue	1,318	1,326	(8)	(1)	3,946	3,887
Operating costs before leaver costs	<u>829</u>	<u>846</u>	17	2	<u>2,504</u>	<u>2,453</u>
EBITDA before leaver costs	489	480	9	2	1,442	1,434
Depreciation and amortisation	<u>166</u>	<u>177</u>	11	6	<u>517</u>	<u>530</u>
Operating profit before leaver costs	<u>323</u>	<u>303</u>	20	7	<u>925</u>	<u>904</u>

*Restated to reflect changes to the group's organisational structure and internal trading arrangements

Openreach revenue in the third quarter decreased by 1 per cent to £1,318 million, with the growth of the broadband base being offset by lower connections activity across all products compared to the much higher market activity in the prior year and also the continued gradual decline of WLR rentals.

External revenue increased by £29 million due to the growth of external lines. At December 31, 2007 Openreach had 3.7 million external LLU lines (net additions of 0.5 million in the quarter) and over 4.5 million WLR lines and channels with 445 external CPs. The increased rentals have been partially offset by lower co-mingling connections from the much higher unbundling activity within the exchanges undertaken in the prior year.

Revenue from other BT lines of business decreased 3 per cent mainly driven by the volume shift to external revenues and also lower broadband related connections. At December 31, 2007 Openreach had 8.5 million LLU lines, and 22.3 million WLR lines and channels with other BT lines of business.

Operating costs decreased by £17 million to £829 million in the quarter. Investment in service over prior quarters and the resulting improvement in service levels, combined with the focus on delivering efficiency programme savings, have more than offset the effects of pay inflation, higher activity levels and increased maintenance and support costs of new systems, resulting in a 2 per cent reduction in operating costs. Headcount has increased by 1,400 since December 31, 2006 as Openreach has invested in service improvements which has helped continue to deliver the improved service lead times. Openreach has also delivered a 50 per cent year on year improvement in average provision and repair lead times.

Overall EBITDA before leaver costs increased by £9 million to £489 million.

Depreciation and amortisation costs of £166 million have decreased by £11 million with the impact of increased depreciation on LLU assets from the large capital investment in prior periods being more than offset by lower depreciation from a number of access network assets reaching the end of their useful economic life. Operating profit before leaver costs increased by £20 million to £323 million.

Openreach has announced plans to install fibre optic cable instead of traditional copper to connect houses on a 1,000-acre new-build project at Ebbsfleet Valley in Kent. At this site Openreach will offer all of its products on a wholesale basis to all UK CPs. From August 2008, CPs at Ebbsfleet will be able to support data at speeds of up to 100Mb, the fastest headline speed available to residential customers in the UK, allowing high-definition television (HDTV) channels to be watched simultaneously and enabling HDTV gaming and near-instant music downloads.

Openreach continues to work towards achieving the key milestones of the Undertakings; actively working with CPs so that they utilise the new WLR 3 product and systems. At the end of January, Openreach retired the legacy LLU provisioning system following the introduction of the Equivalence Management Platform (EMP) and the successful transition of all CPs onto EMP. This is a significant milestone in terms of all CPs using the same platform and also in terms of moving the industry forward.

GROUP INCOME STATEMENT
for the three months ended December 31, 2007

	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	5,154	-	5,154
Other operating income		83	(9)	74
Operating costs	3	<u>(4,520)</u>	<u>(126)</u>	<u>(4,646)</u>
Operating profit		717	(135)	582
Finance expense		(768)	-	(768)
Finance income		<u>634</u>	<u>-</u>	<u>634</u>
Net finance expense	5	(134)	-	(134)
Share of post tax losses of associates and joint ventures		(2)	-	(2)
Profit on disposal of associate		<u>-</u>	<u>1</u>	<u>1</u>
Profit before taxation		581	(134)	447
Taxation		<u>(120)</u>	<u>38</u>	<u>(82)</u>
Profit for the period		<u>461</u>	<u>(96)</u>	<u>365</u>
Attributable to:				
Equity shareholders		461	(96)	365
Minority interest		<u>-</u>	<u>-</u>	<u>-</u>
Earnings per share	6			
- basic		<u>5.7p</u>		<u>4.5p</u>
- diluted		<u>5.6p</u>		<u>4.4p</u>

GROUP INCOME STATEMENT
for the three months ended December 31, 2006

	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	5,126	-	5,126
Other operating income		53	2	55
Operating costs	3	<u>(4,508)</u>	<u>(118)</u>	<u>(4,626)</u>
Operating profit		671	(116)	555
Finance expense		(656)	-	(656)
Finance income		<u>594</u>	<u>139</u>	<u>733</u>
Net finance (expense) income	5	(62)	139	77
Share of post tax profits of associates and joint ventures		<u>7</u>	<u>-</u>	<u>7</u>
Profit before taxation		616	23	639
Taxation		<u>(150)</u>	<u>969</u>	<u>819</u>
Profit for the period		<u>466</u>	<u>992</u>	<u>1,458</u>
Attributable to:				
Equity shareholders		465	992	1,457
Minority interest		<u>1</u>	<u>-</u>	<u>1</u>
Earnings per share	6			
- basic		<u>5.6p</u>		<u>17.6p</u>
- diluted		<u>5.5p</u>		<u>17.1p</u>

GROUP INCOME STATEMENT
for the nine months ended December 31, 2007

	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	15,282	-	15,282
Other operating income		223	(10)	213
Operating costs	3	<u>(13,368)</u>	<u>(366)</u>	<u>(13,734)</u>
Operating profit		2,137	(376)	1,761
Finance expense		(2,167)	-	(2,167)
Finance income		<u>1,886</u>	<u>-</u>	<u>1,886</u>
Net finance expense	5	(281)	-	(281)
Share of post tax profits of associates and joint ventures		(8)	-	(8)
Profit on disposal of associate		<u>-</u>	<u>10</u>	<u>10</u>
Profit before taxation		1,848	(366)	1,482
Taxation		<u>(434)</u>	<u>264</u>	<u>(170)</u>
Profit for the period		<u>1,414</u>	<u>(102)</u>	<u>1,312</u>
Attributable to:				
Equity shareholders		1,413	(102)	1,311
Minority interest		<u>1</u>	<u>-</u>	<u>1</u>
Earnings per share	6			
- basic		<u>17.4p</u>		<u>16.1p</u>
- diluted		<u>17.0p</u>		<u>15.7p</u>

GROUP INCOME STATEMENT
for the nine months ended December 31, 2006

	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	14,931	-	14,931
Other operating income		155	2	157
Operating costs	3	<u>(13,074)</u>	<u>(141)</u>	<u>(13,215)</u>
Operating profit		2,012	(139)	1,873
Finance expense		(1,949)	-	(1,949)
Finance income		<u>1,786</u>	<u>139</u>	<u>1,925</u>
Net finance (expense) income	5	(163)	139	(24)
Share of post tax profits of associates and joint ventures		14	-	14
Profit on disposal of associate		<u>-</u>	<u>20</u>	<u>20</u>
Profit before taxation		1,863	20	1,883
Taxation		<u>(456)</u>	<u>970</u>	<u>514</u>
Profit for the period		<u>1,407</u>	<u>990</u>	<u>2,397</u>
Attributable to:				
Equity shareholders		1,406	990	2,396
Minority interest		<u>1</u>	<u>-</u>	<u>1</u>
Earnings per share	6			
- basic		<u>16.9p</u>		<u>28.9p</u>
- diluted		<u>16.6p</u>		<u>28.2p</u>

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the nine months ended December 31, 2007

	Nine months ended December 31	
	2007 £m	2006 £m
Profit for the period	<u>1,312</u>	<u>2,397</u>
Actuarial gains on defined benefit pension schemes	753	360
Net (losses) gains on cash flow hedges	(2)	70
Exchange differences on translation of foreign operations	96	(102)
Tax on items taken directly to equity	<u>(361)</u>	<u>(150)</u>
Net gains recognised directly in equity	<u>486</u>	<u>178</u>
Total recognised income for the period	<u>1,798</u>	<u>2,575</u>
Attributable to:		
Equity shareholders	1,793	2,574
Minority interest	<u>5</u>	<u>1</u>
	<u>1,798</u>	<u>2,575</u>

GROUP CASH FLOW STATEMENT
for the three months and nine months ended December 31, 2007

	Third quarter ended December 31		Nine months ended December 31	
	2007 £m	2006 £m	2007 £m	2006 £m
Cash flow from operating activities				
Cash generated from operations (note 7 (a))	1,070	704	2,564	3,077
Income taxes (paid) received	<u>(70)</u>	<u>(100)</u>	<u>314</u>	<u>(280)</u>
Net cash inflow from operating activities	1,000	604	2,878	2,797
Cash flow from investing activities				
Interest received	15	26	101	63
Dividends received from associates and joint ventures	1	1	2	6
Proceeds on disposal of subsidiaries	-	2	-	2
Proceeds on disposal of property, plant and equipment	20	17	47	74
Proceeds on disposal of associates and joint ventures	2	-	13	27
Proceeds on disposal of non current financial assets	-	2	1	3
Proceeds on disposal of current financial assets	443	1,583	443	3,464
Acquisition of subsidiaries, net of cash acquired	(42)	(51)	(275)	(96)
Purchases of property, plant and equipment and computer software	(897)	(794)	(2,541)	(2,447)
Investments in associates and joint ventures	-	-	-	(7)
Purchases of non current financial assets	(1)	(19)	(2)	(20)
Purchases of current financial assets	<u>-</u>	<u>(1,019)</u>	<u>(435)</u>	<u>(3,380)</u>
Net cash used in investing activities	(459)	(252)	(2,646)	(2,311)
Cash flows from financing activities				
Equity dividends paid	(23)	(8)	(809)	(635)
Dividends paid to minority interests	-	-	-	(3)
Interest paid	(359)	(362)	(688)	(680)
Repayments of borrowings	(441)	(471)	(1,177)	(624)
Repayment of finance lease liabilities	(279)	(288)	(291)	(297)
New bank loans and bonds	1,309	-	3,912	-
Net (repayment) proceeds on issue of commercial paper	(444)	805	(20)	1,032
Repurchase of ordinary shares	(283)	(105)	(1,018)	(271)
Proceeds on issue of treasury shares	<u>8</u>	<u>13</u>	<u>76</u>	<u>65</u>
Net cash used in financing activities	(512)	(416)	(15)	(1,413)
Effects of exchange rate changes	<u>10</u>	<u>(28)</u>	<u>13</u>	<u>(28)</u>
Net increase (decrease) in cash and cash equivalents	<u>39</u>	<u>(92)</u>	<u>230</u>	<u>(955)</u>
Cash and cash equivalents at beginning of period	1,215	921	1,024	1,784
Cash and cash equivalents, net of bank overdrafts, at end of period (note 7 (c))	<u>1,254</u>	<u>829</u>	<u>1,254</u>	<u>829</u>
Free cash flow (note 7 (b))	<u>(221)</u>	<u>(525)</u>	<u>(202)</u>	<u>(204)</u>
Increase in net debt from cash flows (note 8 (b))	<u>559</u>	<u>674</u>	<u>2,215</u>	<u>1,122</u>

GROUP BALANCE SHEET
at December 31, 2007

	December 31 2007 £m	December 31 2006 £m	March 31 2007 £m
Non current assets			
Intangible assets	3,124	2,374	2,584
Property, plant and equipment	15,278	14,897	14,997
Derivative financial instruments	66	24	25
Investments	29	39	27
Associates and joint ventures	75	60	67
Trade and other receivables	732	449	523
Retirement benefit assets of the BT Pension Scheme	942	-	-
Deferred tax assets	<u>27</u>	<u>467</u>	<u>117</u>
	<u>20,273</u>	<u>18,310</u>	<u>18,340</u>
Current assets			
Inventories	143	127	133
Trade and other receivables	4,721	5,564	4,073
Current tax receivables	-	-	504
Derivative financial instruments	102	25	27
Investments	-	183	3
Cash and cash equivalents	<u>1,672</u>	<u>946</u>	<u>1,075</u>
	<u>6,638</u>	<u>6,845</u>	<u>5,815</u>
Total assets	26,911	25,155	24,155
Current liabilities			
Loans and other borrowings	2,223	3,014	2,203
Derivative financial instruments	266	317	318
Trade and other payables	6,513	6,431	6,719
Current tax liabilities	404	479	277
Provisions	<u>65</u>	<u>73</u>	<u>100</u>
	<u>9,471</u>	<u>10,314</u>	<u>9,617</u>
Total assets less current liabilities	<u>17,440</u>	<u>14,841</u>	<u>14,538</u>
Non current liabilities			
Loans and other borrowings	9,388	6,451	6,387
Derivative financial instruments	920	1,077	992
Other payables	646	546	590
Deferred tax liabilities	1,800	1,544	1,683
Retirement benefit obligations	96	1,558	389
Provisions	<u>214</u>	<u>249</u>	<u>225</u>
	<u>13,064</u>	<u>11,425</u>	<u>10,266</u>
Capital and reserves			
Called up share capital	432	432	432
Reserves	<u>3,915</u>	<u>2,937</u>	<u>3,806</u>
Total equity shareholders' funds	4,347	3,369	4,238
Minority interests	<u>29</u>	<u>47</u>	<u>34</u>
Total equity	<u>4,376</u>	<u>3,416</u>	<u>4,272</u>
	<u>17,440</u>	<u>14,841</u>	<u>14,538</u>

NOTES

1 Basis of preparation and accounting policies

These primary statements and selected notes comprise the unaudited interim consolidated financial results of BT Group plc for the quarter and nine months ended December 31, 2007 and 2006, together with the audited balance sheet for the year ended March 31, 2007. 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, 2007 were approved by the Board of Directors on May 16, 2007, published on May 31, 2007 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 237 of the Companies Act 1985.

The accounting policies which have been applied to prepare the interim financial results are the same as those used for the preparation of the consolidated financial statements for the year ended March 31, 2007.

In order to assist readers in understanding the year on year performance, we have restated the comparative line of business results to reflect changes to the group's organisational structure and new internal trading arrangements. There is no change to the overall group reported results.

Certain comparative balance sheet amounts have been reclassified as at December 31, 2006 to conform with the presentation adopted as at March 31, 2007 and December 31, 2007.

2 Results of businesses

(a) Operating results

	External revenue £m	Internal revenue £m	Group revenue £m	EBITDA (ii) £m	Group operating profit (loss) (ii) £m
<i>Third quarter ended</i>					
<i>December 31, 2007</i>					
BT Global Services	1,965	-	1,965	215	22
BT Retail	2,074	72	2,146	402	291
BT Wholesale	890	315	1,205	344	120
Openreach	218	1,100	1,318	489	323
Other	7	-	7	19	(19)
Intra-group items (i)	-	(1,487)	(1,487)	-	-
Total	<u>5,154</u>	<u>-</u>	<u>5,154</u>	<u>1,469</u>	<u>737</u>
<i>Third quarter ended</i>					
<i>December 31, 2006*</i>					
BT Global Services	1,848	-	1,848	175	3
BT Retail	2,046	62	2,108	360	245
BT Wholesale	1,041	320	1,361	379	150
Openreach	189	1,137	1,326	480	303
Other	2	-	2	45	(3)
Intra-group items (i)	-	(1,519)	(1,519)	-	-
Total	<u>5,126</u>	<u>-</u>	<u>5,126</u>	<u>1,439</u>	<u>698</u>
<i>Nine months ended</i>					
<i>December 31, 2007</i>					
BT Global Services	5,663	-	5,663	579	36
BT Retail	6,116	203	6,319	1,120	794
BT Wholesale	2,847	932	3,779	1,081	438
Openreach	637	3,309	3,946	1,442	925
Other	19	-	19	120	15
Intra-group items (i)	-	(4,444)	(4,444)	-	-
Total	<u>15,282</u>	<u>-</u>	<u>15,282</u>	<u>4,342</u>	<u>2,208</u>
<i>Nine months ended</i>					
<i>December 31, 2006*</i>					
BT Global Services	5,287	-	5,287	506	32
BT Retail	6,058	165	6,223	1,018	694
BT Wholesale	3,093	958	4,051	1,138	462
Openreach	481	3,406	3,887	1,434	904
Other	12	-	12	147	4
Intra-group items (i)	-	(4,529)	(4,529)	-	-
Total	<u>14,931</u>	<u>-</u>	<u>14,931</u>	<u>4,243</u>	<u>2,096</u>

* Restated to reflect changes to the group's organisational structure and internal trading arrangements

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

2 Results of businesses *continued*

(b) Revenue analysis

	Third quarter ended December 31				Nine months ended December 31	
	2007 £m	2006* £m	Better (worse) £m	%	2007 £m	2006* £m
Traditional	3,140	3,246	(106)	(3)	9,539	9,674
New wave	<u>2,014</u>	<u>1,880</u>	134	7	<u>5,743</u>	<u>5,257</u>
	<u>5,154</u>	<u>5,126</u>	28	1	<u>15,282</u>	<u>14,931</u>
Major corporate	1,882	1,796	86	5	5,422	5,120
Business	647	607	40	7	1,914	1,841
Consumer	1,292	1,310	(18)	(1)	3,812	3,819
Wholesale/Carrier	1,326	1,411	(85)	(6)	4,115	4,139
Other	<u>7</u>	<u>2</u>	5	n/m	<u>19</u>	<u>12</u>
	<u>5,154</u>	<u>5,126</u>	28	1	<u>15,282</u>	<u>14,931</u>

* Restated for customer account transfers

(c) New wave revenue analysis

	Third quarter ended December 31				Nine months ended December 31	
	2007 £m	2006 £m	Better (worse) £m	%	2007 £m	2006 £m
Networked IT services	1,222	1,117	105	9	3,403	3,099
Broadband	550	520	30	6	1,633	1,460
Mobility	89	73	16	22	257	216
Other	<u>153</u>	<u>170</u>	(17)	(10)	<u>450</u>	<u>482</u>
	<u>2,014</u>	<u>1,880</u>	134	7	<u>5,743</u>	<u>5,257</u>

(d) Capital expenditure on property, plant, equipment, software and motor vehicles

	Third quarter ended December 31				Nine months ended December 31	
	2007 £m	2006 £m	Better (worse) £m	%	2007 £m	2006 £m
Transmission equipment	267	303	36	12	835	897
Exchange equipment	13	24	11	46	68	77
Other network equipment	304	214	(90)	(42)	870	603
Computers and office equipment	71	30	(41)	(137)	126	80
Software	196	219	23	11	606	601
Motor vehicles and other	5	8	3	38	30	35
Land and buildings	<u>7</u>	<u>17</u>	10	59	<u>30</u>	<u>49</u>
	<u>863</u>	<u>815</u>	(48)	(6)	<u>2,565</u>	<u>2,342</u>

3 (a) Operating costs

	Third quarter ended December 31		Nine months ended December 31	
	2007 £m	2006 £m	2007 £m	2006 £m
Staff costs before leaver costs	1,273	1,282	3,869	3,812
Leaver costs	<u>20</u>	<u>27</u>	<u>71</u>	<u>84</u>
Staff costs	1,293	1,309	3,940	3,896
Own work capitalised	<u>(177)</u>	<u>(186)</u>	<u>(556)</u>	<u>(532)</u>
Net staff costs	1,116	1,123	3,384	3,364
Depreciation and amortisation	732	741	2,134	2,147
Payments to telecommunication operators	1,023	1,051	3,139	3,091
Other operating costs	<u>1,649</u>	<u>1,593</u>	<u>4,711</u>	<u>4,472</u>
Total before specific items	4,520	4,508	13,368	13,074
Specific items (note 4)	<u>126</u>	<u>118</u>	<u>366</u>	<u>141</u>
Total	<u>4,646</u>	<u>4,626</u>	<u>13,734</u>	<u>13,215</u>

(b) Leaver costs

	Third quarter ended December 31		Nine months ended December 31	
	2007 £m	2006 £m	2007 £m	2006 £m
BT Global Services	1	3	11	20
BT Retail	2	5	7	14
BT Wholesale	-	2	1	6
Openreach	3	1	11	3
Other	<u>14</u>	<u>16</u>	<u>41</u>	<u>41</u>
Total	<u>20</u>	<u>27</u>	<u>71</u>	<u>84</u>

4 Specific items

BT separately identifies and discloses any significant 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.

4 Specific items *continued*

	Third quarter ended December 31		Nine months ended December 31	
	2007	2006	2007	2006
	£m	£m	£m	£m
Creation of Openreach	-	30	-	30
Restructuring costs	76	-	292	-
Write off of circuit inventory and working capital balances	50	61	74	61
Property rationalisation costs	-	17	-	40
Cost associated with settlement of open tax years	-	10	-	10
Specific operating costs	126	118	366	141
Loss (profit) on sale of non current asset investments	9	(2)	10	(2)
Profit on disposal of associate	(1)	-	(10)	(20)
Net specific items charge before interest and tax	134	116	366	119
Interest on settlement of open tax years	-	(139)	-	(139)
Tax credit on specific items	(38)	(34)	(110)	(35)
Tax credit in respect of settlement of open tax years	-	(935)	-	(935)
Tax credit on re-measurement of deferred tax	-	-	(154)	-
Net specific items charge (income) after tax	<u>96</u>	<u>(992)</u>	<u>102</u>	<u>(990)</u>

5 Net finance expense

	Third quarter ended December 31		Nine months ended December 31	
	2007	2006	2007	2006
	£m	£m	£m	£m
Finance expense ¹ before pension interest	261	188	646	545
Interest on pension scheme liabilities	<u>507</u>	<u>468</u>	<u>1,521</u>	<u>1,404</u>
Finance expense	<u>768</u>	<u>656</u>	<u>2,167</u>	<u>1,949</u>
Finance income ² before pension income	(22)	(160)	(50)	(206)
Expected return on pension scheme assets	<u>(612)</u>	<u>(573)</u>	<u>(1,836)</u>	<u>(1,719)</u>
Finance income	<u>(634)</u>	<u>(733)</u>	<u>(1,886)</u>	<u>(1,925)</u>
Net finance expense (income)	<u>134</u>	<u>(77)</u>	<u>281</u>	<u>24</u>
Net finance expense before pensions	239	28	596	339
Interest associated with pensions	<u>(105)</u>	<u>(105)</u>	<u>(315)</u>	<u>(315)</u>
Net finance expense (income)	<u>134</u>	<u>(77)</u>	<u>281</u>	<u>24</u>

¹Finance expense in the third quarter and nine months ended December 31, 2007 includes £36 million and £39 million net charge, respectively, arising from the re-measurement of financial instruments which under IAS 39 are not in hedging relationships on a fair value basis. This includes a charge in the third quarter of £26 million on a low cost borrowing transaction which is marginally earnings positive after tax in the year. Finance expense in the third quarter and nine months ended December 31, 2006 included £nil and a £1 million net charge, respectively, arising from the re-measurement of financial instruments which were not in hedging relationships on a fair value basis.

²Finance income in the third quarter and nine months ended December 31, 2006 included £139 million of interest on settlement of open tax years.

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	
	2007	2006	2007	2006
	millions of shares		millions of shares	
Basic	8,037	8,284	8,120	8,302
Diluted	8,241	8,512	8,332	8,488

7 (a) Reconciliation of profit before tax to cash generated from operations

	Third quarter ended December 31		Nine months ended December 31	
	2007	2006	2007	2006
	£m	£m	£m	£m
Profit before tax	447	639	1,482	1,883
Depreciation and amortisation	732	741	2,134	2,147
Associates and joint ventures	2	(7)	8	(14)
Employee share scheme costs	19	23	55	70
Net finance expense (income)	134	(77)	281	24
Loss (profit) on disposal of associates and non current asset investments	8	(2)	-	(22)
Changes in working capital	(294)	(212)	(1,219)	(765)
Provisions movements, pensions and other	<u>22</u>	<u>(401)</u>	<u>(177)</u>	<u>(246)</u>
Cash generated from operations	<u>1,070</u>	<u>704</u>	<u>2,564</u>	<u>3,077</u>

(b) Free cash flow

	Third quarter ended December 31		Nine months ended December 31	
	2007	2006	2007	2006
	£m	£m	£m	£m
Cash generated from operations	1,070	704	2,564	3,077
Income taxes paid	<u>(70)</u>	<u>(100)</u>	<u>314</u>	<u>(280)</u>
Net cash inflow from operating activities	1,000	604	2,878	2,797
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	(877)	(777)	(2,494)	(2,373)
Net purchase of non current asset investments	(1)	(17)	(1)	(17)
Dividends received from associates	1	1	2	6
Interest received	15	26	101	63
Included in cash flows from financing activities				
Interest paid	<u>(359)</u>	<u>(362)</u>	<u>(688)</u>	<u>(680)</u>
Free cash flow	<u>(221)</u>	<u>(525)</u>	<u>(202)</u>	<u>(204)</u>

(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), less the acquisition or disposal of group undertakings and less the net sale of short term investments. 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 December 31		At March 31
	2007	2006	2007
	£m	£m	£m
Cash at bank and in hand	783	387	568
Short term deposits	<u>889</u>	<u>559</u>	<u>507</u>
Cash and cash equivalents	1,672	946	1,075
Bank overdrafts	<u>(418)</u>	<u>(117)</u>	<u>(51)</u>
	<u>1,254</u>	<u>829</u>	<u>1,024</u>

8 Net debt

Net debt at December 31, 2007 was £10,175 million (December 31, 2006 - £8,796 million, March 31, 2007 - £7,914 million).

Net debt consists of loans and other borrowings less current asset investments and cash and cash equivalents. Loans and other borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this analysis current asset investments, 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 measures balances at the future cash flows due to arise on maturity of financial instruments and removes the balance sheet adjustments made for the re-measurement of hedged risks under fair value hedges and the use of the amortised cost method as required by IAS 39. In addition, the gross balances are adjusted to take account of netting arrangements amounting to £416 million. Net debt is a non GAAP measure since it is not defined in IFRS but it is a key indicator used by management in order to assess operational performance.

8 (a) Analysis

	At December 31		At March 31
	2007	2006	2007
	£m	£m	£m
Loans and other borrowings	11,611	9,465	8,590
Cash and cash equivalents	(1,672)	(946)	(1,075)
Other current financial assets	-	(183)	(3)
	<u>9,939</u>	<u>8,336</u>	<u>7,512</u>
Adjustments:			
To retranslate currency denominated balances at swapped rates where hedged	404	594	577
To recognise borrowings at net proceeds and unamortised discount	(168)	(134)	(175)
Net debt	<u>10,175</u>	<u>8,796</u>	<u>7,914</u>

After allocating the element of the adjustments which impact loans and other borrowings, gross debt at December 31, 2007 was £11,427 million (December 31, 2006 - £9,809 million, March 31, 2007 - £8,943 million).

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

	Third quarter ended		Nine months	
	December 31		ended December 31	
	2007	2006	2007	2006
	£m	£m	£m	£m
Net debt at beginning of period	9,618	8,079	7,914	7,534
Increase in net debt resulting from cash flows	559	674	2,215	1,122
Net debt assumed or issued on acquisitions	-	-	31	9
Currency movements	(1)	15	-	114
Other non-cash movements	(1)	28	15	17
Net debt at end of period	<u>10,175</u>	<u>8,796</u>	<u>10,175</u>	<u>8,796</u>

9 Statement of changes in equity

	Nine months ended December 31		Year ended March 31
	2007	2006	2007
	£m	£m	£m
Shareholders' funds	4,238	1,555	1,555
Minority interest	<u>34</u>	<u>52</u>	<u>52</u>
Equity at beginning of period	4,272	1,607	1,607
Total recognised income for the period	1,798	2,575	3,843
Share based payment	38	47	71
Issue of shares	10	16	24
Net purchase of treasury shares	(922)	(194)	(284)
Dividends on ordinary shares	(810)	(631)	(1,053)
Tax on items taken directly to equity	-	-	82
Minority interest	<u>(10)</u>	<u>(4)</u>	<u>(18)</u>
Net changes in equity for the financial period	104	1,809	2,665
Equity at end of period			
Shareholders' funds	4,347	3,369	4,238
Minority interest	<u>29</u>	<u>47</u>	<u>34</u>
Total equity	<u>4,376</u>	<u>3,416</u>	<u>4,272</u>

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

	Third quarter ended December 31		Nine months ended December 31	
	2007	2006	2007	2006
	£m	£m	£m	£m
Operating profit	582	555	1,761	1,873
Specific items (note 4)	135	116	376	139
Depreciation and amortisation	<u>732</u>	<u>741</u>	<u>2,134</u>	<u>2,147</u>
EBITDA before specific items	<u>1,449</u>	<u>1,412</u>	<u>4,271</u>	<u>4,159</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.

11 Dividends

The directors declared an interim dividend of 5.4 pence per share (5.1 pence last year) on November 8, 2007. This will be paid on February 11, 2008 to the shareholders on the register at the close of business on December 28, 2007. This interim dividend, amounting to £431 million, has not been included as a liability as at December 31, 2007. It will be recognised as an appropriation of retained earnings within shareholders' equity in the quarter ended March 31, 2008.

Independent review report to BT Group plc on the interim financial information

Introduction

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the three and nine months ended December 31, 2007, which comprises the group income statement, group statement of recognised income and expense, group cash flow statement and group balance sheet and related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information in the condensed set of financial statements.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with note 1, Basis of preparation and accounting policies.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accounting policies which have been applied to prepare the condensed set of financial statements, included in this interim financial report, are the same as those used for the preparation of the consolidated financial statements for the year ended March 31, 2007.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the three and nine months ended December 31, 2007 is not prepared, in all material respects, in accordance with note 1, Basis of preparation and accounting policies.

PricewaterhouseCoopers LLP, Chartered Accountants
London
6 February 2008

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: continuing growth in revenue, EBITDA, earnings per share and dividends; continued growth in Global Services' revenue and EBITDA margins; growth in new wave revenue, mainly from networked IT services and broadband; continued growth in the broadband market and adding value to BT's broadband proposition; and the delivery and benefits of BT's 21st Century Network and next generation services.

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 and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.