November 11, 2004

SECOND QUARTER AND HALF YEAR RESULTS TO SEPTEMBER 30, 2004

SECOND QUARTER HIGHLIGHTS

- Group turnover up 2 per cent, excluding the impact of mobile termination rate reductions, at £4,602 million. Up 1 per cent including the impact of mobile termination rate reductions
- New wave turnover of £1,033 million, up 36 per cent
- Profit before taxation, goodwill amortisation and exceptional items of £549 million, up 4 per cent
- Earnings per share before goodwill amortisation and exceptional items, up 9 per cent at 4.8 pence
- Free cash flow before acquisitions, disposals and dividends of £594 million
- Net debt of £8,267 million, 6 per cent lower than previous year
- Broadband end users of 3.3 million at September 30, 2004 with a record 607,000 DSL connections in the quarter

HALF YEAR HIGHLIGHTS

- Group turnover up 1 per cent, excluding the impact of mobile termination rate reductions, at £9,169 million. Turnover flat including the impact of mobile termination rate reductions
- New wave turnover of £1,969 million, up 34 per cent
- Profit before taxation, goodwill amortisation and exceptional items of £983 million, down 4 per cent. Up 4 per cent before leaver costs
- Earnings per share before goodwill amortisation and exceptional items maintained at 8.5 pence. Up 7 per cent at 9.4 pence before leaver costs
- Interim dividend of 3.9 pence per share, up 22 per cent

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 14 to 19.

Chairman's statement

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

"The group is making exciting progress, delivering strong financial results whilst transforming the business. I am very pleased to report that we will be paying an interim dividend of 3.9 pence per share, 22 per cent higher than last year.

"We continue to invest in our business at a rate well above others in Europe. This investment, together with our continuing research and development programmes, are helping BT take a world leading position."

Chief Executive's statement

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

"The 36 per cent growth of new wave revenues helped us deliver the best underlying revenue growth in almost 3 years. We continue to improve earnings per share, up 9 per cent before goodwill amortisation and exceptional items.

"We are winning business across the globe and responding innovatively to an intense competitive environment, particularly in the UK. Our agreement to acquire Infonet is another step in BT's transformation into a leading provider of IT and networking services.

"We now have more than 3.3 million broadband DSL customers, with the latest million connections achieved in less than six months, which is a new connection every 15 seconds.

"These results demonstrate our continuing ability to improve earnings whilst building for the future."

RESULTS FOR THE SECOND QUARTER AND HALF YEAR TO SEPTEMBER 30, 2004

	Second quarter			Half year		
	2004 £m	*2003 £m*	Better (worse) %	2004 £m	*2003 £m*	Better (worse) %
Group turnover	4,602	*4,568*	1	9,169	*9,154*	-
EBITDA						
- before exceptional items and leaver costs	1,449	*1,485*	(2)	2,893	*2,955*	(2)
- before exceptional items	1,441	*1,469*	(2)	2,783	*2,928*	(5)
Profit before taxation						
- before goodwill, exceptional items and leaver costs	557	*544*	2	1,093	*1,056*	4
- before goodwill and exceptional items	549	*528*	4	983	*1,029*	(4)
- after goodwill and exceptional items	567	*507*	12	983	*1,004*	(2)
Earnings per share						
- before goodwill, exceptional items and leaver costs	4.9p	*4.6p*	7	9.4p	*8.8p*	7
- before goodwill and exceptional items	4.8p	*4.4p*	9	8.5p	*8.5p*	-
- after goodwill and exceptional items	5.0p	*4.3p*	16	8.6p	*8.4p*	2
Capital expenditure	803	*578*	(39)	1,497	*1,130*	(32)
Free cash flow	594	*585*	2	751	*1,203*	(38)
Dividend				3.9p	*3.2p*	22
Net debt				8,267	*8,768*	6

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 £2 million for the half year and £1 million for the quarter ended September 30, 2003.

The full profit and loss account, cash flow statement and balance sheet are provided on pages 14 to 19. A reconciliation of EBITDA to group operating profit is provided on page 27.

GROUP RESULTS – SECOND QUARTER ENDED SEPTEMBER 30, 2004

The results for the second quarter show that the transformation of our business is progressing well. Turnover was 1 per cent higher at £4,602 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 2 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 £1,033 million was 36 per cent higher than last year. New wave turnover accounted for 22 per cent of the group's turnover compared to 17 per cent in the second quarter of last year. New wave turnover is mainly generated from Information and Communications Technology (ICT) solutions, broadband, mobility and managed services. ICT turnover grew by 20 per cent to £699 million. Mobility turnover at £49 million achieved growth of 188 per cent. Broadband turnover increased by 88 per cent to £199 million.

Turnover from the group's traditional businesses declined by 6 per cent (5 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 second quarter was 5 per cent lower (4 per cent lower excluding the impact of reductions to mobile termination rates) compared to last year. New wave consumer turnover increased by 65 per cent, driven by the continuing growth of broadband and mobility. Broadband connections increased by over 100 per cent and mobility connections increased to over 160,000 at September 30, 2004 from 11,000 last year. In July, BT Communicator was launched, allowing customers to make voice over internet calls, e-mail, instant messaging through Yahoo! messenger and text messaging to give consumers a truly converged multi-media communications experience.

BT Together packages provide an important element in defending traditional turnover. From July 1, 2004 we built on the success of the BT Together family of packages and simplified our pricing structure. This change brings lower call charges and reductions to our three BT Together fixed monthly fee packages and will make it easier for customers to compare the value they get from BT with similar offerings from competitors. Customer numbers on BT Together increased by 8.7 million compared to September 30, 2003 mainly as a result of this simplification and there are now 17.6 million BT Together customers. Within this, the number of customers on the frequent user packages of BT Together Option 2 increased by 8 per cent to 1.3 million and Option 3 increased by 145 per cent to 0.5 million.

Traditional consumer turnover declined by 8 per cent compared to last year, consistent with the previous quarter. This decline reflects the migration to new wave products, Carrier Pre-Selection (CPS) penetration and mobile substitution.

The underlying 12 month rolling average revenue per consumer customer household (net of mobile termination charges) of £262 declined by £3 compared to last quarter with increased broadband volumes offset by lower call revenues and broadband price reductions. Contracted revenues increased by 1 percentage point to 60 per cent compared to last quarter, and is 3 percentage points higher than last year.

Turnover from smaller and medium sized businesses declined by 4 per cent (3 per cent excluding the impact of reductions to mobile termination rates). The continued expansion of the BT Business Plan portfolio, originally launched in January 2003, has extended its reach. The number of business locations had more than doubled against last year to 322,000 by September 30, 2004, an increase of 9 per cent in the quarter. This, together with our 82 BT Local Businesses, defended some of the decline in the traditional revenue. New wave turnover grew by 49 per cent in this customer segment supported by the 61 per cent growth in Business Broadband customers. A new product structure, announced in September, increases the bandwidth size of Business Broadband products, whilst maintaining current prices. The introduction of additional value added services, such as internet trading and security, have helped increase the number of customers using BT to provide their business applications. 58 per cent of new Business Broadband customers now choose BT for one or more of their application requirements.

Major Corporate (UK and international) turnover increased by 2 per cent with the strong growth in new wave turnover (23 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 now represents almost half of Major Corporate turnover. ICT contract wins were £0.9 billion in the second quarter which results in orders of £6.5 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 percentage point compared to last quarter to around 65 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 10 per cent (14 per cent excluding the impact of reductions to mobile termination rates). A doubling of the UK Wholesale new wave turnover to £147 million was driven by broadband and managed services.

There was an installed base of 3.3 million wholesale broadband lines by September 30, 2004, an increase of 146 per cent over last year, with net additions in the quarter growing at more than 46,000 per week. In early September BT was able to lengthen the distance from an exchange over which broadband can be provided, resulting in 99.8 per cent of lines connected to upgraded exchanges now being able to receive broadband. BT Retail had 1,283,000 broadband connections at September 30, 2004, an increase of 93 per cent on September 30, 2003.

The group has an extensive market research programme conducted by external agencies which focuses on the level and causes of customer dissatisfaction. BT achieved an 8 per cent improvement in the level of customer dissatisfaction in the quarter, taking the year to date improvement to 11 per cent.

Group operating costs before goodwill amortisation and exceptional items increased by 1 per cent compared to last year. Leaver costs were £8 million in the quarter (£16 million last year). Net staff costs decreased by £61 million, before leaver costs, to £831 million due to improved efficiency partially offset by the impact of increases in pay rates and the additional staff required to service ICT contracts. Payments to other telecommunication operators were £62 million (6 per cent) lower than last year mainly reflecting the impact of the mobile termination rate reductions. Other operating costs (excluding goodwill amortisation and exceptional items) increased by £192 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, such as the recent campaign highlighting BT's leadership in the digital networked economy and higher subscriber acquisition costs. These were partly offset by cost savings from our efficiency programmes.

Depreciation was £19 million lower than last year at £702 million reflecting shorter life assets becoming fully depreciated and more efficient capital expenditure over recent years.

Group operating profit before goodwill amortisation and exceptional items decreased by 1 per cent compared to last year. As a result of the costs of supporting the new wave activities, operating profit margins declined by 0.4 percentage points compared to the second quarter last year to 16.0 per cent.

BT's share of associates and joint ventures operating profits before goodwill amortisation and exceptional items was £3 million compared to a £4 million loss last year.

Net interest payable before exceptional items was £207 million, an improvement of £9 million against last year reflecting the reduction in the level of net debt.

The profit on sale of property fixed assets of £15 million includes the sale of Mondial House for consideration of £51 million.

Profit before taxation, goodwill amortisation and exceptional items of £549 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 (28.0 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 £22 million. This reflected the £25 million profit on disposal of certain of the group's investments, including PayPoint for consideration of £34 million. This was partly offset by an exceptional property rationalisation charge of £3 million in relation to the group's provincial office portfolio. This 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 5.0 pence compared to 4.3 pence last year, an improvement of 16 per cent.

Cash flow and net debt

Cash inflow from operating activities amounted to £1,413 million compared to £1,274 million last year. The improved cash flow reflects a better working capital performance.

Return on investments and servicing of finance is a net cash outflow of £95 million compared to £169 million last year. This movement was mainly driven by the timing of interest payments on debt that was repaid subsequent to September 30, 2003.

The net cash outflow on fixed asset purchases and sales was £724 million in the quarter which compares to £520 million last year reflecting the move to a flatter profile of capital expenditure through the year, investment in the NHS contracts and transformational expenditure on the network.

Progress continues to be made with our plans for the implementation of BT's 21st century network (21CN) programme announced earlier this year. 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 have begun in recent weeks with new multi service equipment currently being installed at 18 exchanges.

Free cash flow (before acquisitions and disposals, dividends and financing) was a net inflow of £594 million compared to £585 million last year.

The share buyback programme continued with the repurchase of 37 million shares for £68 million in the quarter.

Net debt continued to improve and was £8,267 million at September 30, 2004, 6 per cent below the level at September 30, 2003.

Post balance sheet events

In November BT signed a definitive agreement to acquire Infonet, one of the world's leading providers of international managed voice and data network services. The transaction values Infonet at US$965 million (£520 million). Excluding Infonet's net cash balance of US$390 million at March 31, 2004 the aggregate value of the deal is US$575 million (£310 million). The deal is subject to Infonet shareholder approval and regulatory clearances and is expected to complete in the first half of 2005.

The acquisition of Infonet marks a significant step forward in BT's strategy of addressing the IT and networking services needs of multi-site companies and organisations. It will greatly extend BT's global reach and will deepen the company's presence in North America and Asia Pacific. Infonet's recognised strengths in innovation, product quality and customer service will complement BT's strengths in the managed network services market.

The agreed sale of BT's interest in Intelsat for US$120 million is subject to regulatory clearance but is expected to complete in the third quarter. BT also sold its interest in Starhub for £71 million in October.

Shareholder distributions

An interim dividend of 3.9 pence per share, an increase of 22 per cent on last year, will be paid on February 7, 2005 to shareholders on the register on December 31, 2004. The ex dividend date is December 29, 2004. In the first half year 54 million shares were repurchased for £99 million under the group's share buyback programme.

Prospects

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

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. The major areas of impact will be due to the different treatment of financial instruments, pensions, property leases, share based payments and dividends.

The half year report, which contains the independent review report of the auditors, will be advertised in The Times on November 12, 2004.

The third quarter results of BT Group are expected to be announced on February 10, 2005.

BT Retail

	Second quarter ended September 30				Half year ended September 30	
	2004	*2003**	Better (worse)		2004	*2003**
	£m	*£m*	£m	%	£m	*£m*
Group turnover	3,121	*3,201*	(80)	(2)	6,237	*6,374*
Gross margin	817	*896*	(79)	(9)	1,642	*1,753*
Sales, general and administration costs	495	*539*	44	8	1,028	*1,023*
EBITDA	322	*357*	(35)	(10)	614	*730*
Depreciation	35	*41*	6	15	68	*88*
Operating profit	287	*316*	(29)	(9)	546	*642*
Operating profit before leaver costs	291	*325*	(34)	(10)	593	*652*
Capital expenditure	36	*20*	(16)	(80)	64	*40*

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

Growth in new wave turnover of 33 per cent was offset by the 9 per cent decline in traditional turnover resulting in an overall decline of 2 per cent compared to last year.

BT Retail turnover	Second quarter ended September 30				Half year ended September 30	
	2004	*2003**	Better (worse)		2004	*2003**
	£m	*£m*	£m	%	£m	*£m*
Voice Services	2,058	*2,254*	(196)	(9)	4,157	*4,520*
Intermediate Products	428	*471*	(43)	(9)	870	*939*
Traditional	2,486	*2,725*	(239)	(9)	5,027	*5,459*
ICT	449	*385*	64	17	862	*750*
Broadband	123	*68*	55	81	233	*125*
Mobility	45	*15*	30	200	83	*29*
Other	18	*8*	10	125	32	*11*
New Wave	635	*476*	159	33	1,210	*915*
Total	3,121	*3,201*	(80)	(2)	6,237	*6,374*
Sales to other BT businesses incl. above	98	*75*	23	31	193	*121*

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

Turnover from voice services was 9 per cent lower than last year (8 per cent excluding the impact of reductions to mobile termination rates). This reflects the migration to broadband with a 22 per cent fall in dial up internet minutes, reductions in market share and the decline in the overall fixed to fixed call minutes market.

Turnover from intermediate products decreased by 9 per cent compared to last year mainly driven by a 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 33 per cent compared to last year, an increase in the rate of growth from last quarter and above the average for last year. ICT turnover increased by 17 per cent, reflecting strong growth compared to the overall market with new IP based service contract wins.

The growth of broadband continues with 1,283,000 BT Retail connections at September 30, 2004, an increase of 16 per cent in the quarter. Net additions of 181,000 were a 30 per cent share of the DSL market additions. Broadband turnover grew by 81 per cent compared to last year to £123 million. On July 1, 2004, BT Retail reduced its prices on BT Yahoo! 1mb, BT Yahoo! 512k and BT Broadband. From October 1, 2004 BT Retail has further reduced its price on BT Broadband Basic from £19.99 to £17.99.

In November 2003, BT launched BT Mobile Home Plan through retail stores. Consumer Mobile has now attracted over 160,000 connections at September 30, 2004, increasing the number of connections in the quarter by 84 per cent. BT had consumer and corporate post pay contract mobile connections of 305,000 at September 30, 2004 reflecting growth of over 90,000 connections (42 per cent) since June 30, 2004. Turnover from mobility services trebled compared to last year, to £45 million.

Gross margin decreased by 1.8 percentage points to 26.2 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 strongly, 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.

Cost transformation programmes continue to generate savings in the traditional business with an estimated £69 million of savings before leaver costs (15 per cent) compared to last year, of which £29 million was invested in new wave activities. Leaver costs of £4 million were incurred in the quarter, a decrease of £5 million over last year.

Operating profit in the quarter of £287 million was 9 per cent lower than last year.

BT Wholesale

	Second quarter ended September 30				Half year ended September 30	
	2004	*2003**	Better (worse)		2004	*2003**
	£m	*£m*	£m	%	£m	*£m*
External turnover	952	*851*	101	12	1,893	*1,737*
Internal turnover	1,287	*1,349*	(62)	(5)	2,597	*2,723*
Group turnover	2,239	*2,200*	39	2	4,490	*4,460*
Variable cost of sales	556	*520*	(36)	(7)	1,109	*1,053*
Gross variable profit	1,683	*1,680*	3	-	3,381	*3,407*
Network and SG&A costs	723	*730*	7	1	1,487	*1,481*
EBITDA	960	*950*	10	1	1,894	*1,926*
Depreciation	476	*473*	(3)	(1)	953	*947*
Operating profit	484	*477*	7	1	941	*979*
Operating profit before leaver costs	484	*479*	5	1	982	*981*
Capital expenditure	545	*408*	(137)	(34)	1,020	*776*

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

Wholesale turnover for the quarter of £2,239 million was 2 per cent higher and gross variable profit of £1,683 million was flat compared to last year. EBITDA and operating profit have increased by 1 per cent year on year.

External turnover in the quarter of £952 million increased by 12 per cent. Excluding the impact of regulatory reductions to mobile termination rates external turnover increased by 17 per cent. The growth was driven by the increase in new wave turnover, up 99 per cent to £147 million in the quarter, which continues to be from increases in broadband and managed services. The growth in traditional turnover is mainly driven by wholesale access.

During the second half of the year the impact of recent regulatory decisions will result in reductions in prices for interconnect and private circuits for mobile operators. This is expected to have an impact of about £20 million per quarter.

Internal turnover declined by 5 per cent to £1,287 million reflecting the impact of lower volumes of calls, lines and private circuits, as well as lower regulatory prices being reflected in internal charges.

Gross variable profit of £1,683 million has remained flat against last year reflecting the regulatory price reductions and changing mix.

The continued drive to reduce costs, whilst handling higher volumes of activity to support the growth in turnover, is reflected in the £7 million year on year reduction in network and SG&A costs contributing to the 1 per cent growth in EBITDA and operating profit.

Capital expenditure increased by 34 per cent to £545 million when compared to last year. This reflects expenditure on transforming the group's network, particularly to support the rapid growth in broadband.

BT Global Services

	Second quarter ended September 30				Half year ended September 30	
	2004	*2003**	Better (worse)		2004	*2003**
	£m	*£m*	£m	%	£m	*£m*
Group turnover	1,499	*1,381*	118	9	2,910	*2,726*
EBITDA	129	*117*	12	10	231	*212*
Operating loss	(13)	*(39)*	26	67	(49)	*(90)*
Operating loss before leaver costs	(10)	*(34)*	24	71	(33)	*(77)*
Capital expenditure	169	*102*	(67)	(66)	318	*204*

*Restated to reflect changes in intra-group trading arrangements.
See note 2 (b) for additional detail.

Turnover for the quarter rose by 9 per cent to £1,499 million. Excluding the adverse impact of exchange rates turnover growth was 10 per cent. Solutions turnover grew by 18 per cent reflecting the conversion of the underlying order book. Consulting and Systems Integration (C&SI) (formerly BT Syntegra) produced strong turnover growth for another quarter, with the NHS contracts contributing towards the growth of 19 per cent. Solutions and C&SI achieved orders of £0.9 billion in the quarter which results in orders of £6.5 billion over the last twelve months. Global Products turnover grew by 3 per cent (5 per cent excluding the impact of exchange rates) having benefited from continuing growth in Multi Protocol Label Switching (MPLS) products. Global Carrier turnover grew by 7 per cent following continued high termination revenues in Europe.

The increase in turnover, together with lower network, selling, general and administration costs, following continued cost reduction initiatives, helped generate a £26 million improvement in operating losses. 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 £169 million increased by £67 million compared to last year mainly due to expenditure on the NHS contracts.

GROUP PROFIT AND LOSS ACCOUNT
for the three months ended September 30, 2004

(unaudited)	Notes	**Before goodwill amortisation and exceptional items £m**	Goodwill amortisation and exceptional items (note 4) £m	Total £m
Group turnover	2	**4,602**	**-**	4,602
Other operating income		**43**	**-**	43
Operating costs	3	**(3,907)**	(7)	(3,914)
Group operating profit (loss)	2	**738**	(7)	731
Group's share of operating profits of associates and joint ventures		**3**	**-**	3
Total operating profit (loss)		**741**	(7)	734
Profit on sale of fixed asset investments and group undertakings		**-**	25	25
Profit on sale of property fixed assets		**15**	**-**	15
Net interest payable	5	**(207)**	**-**	(207)
Profit before taxation		**549**	18	567
Taxation		**(141)**	1	(140)
Profit after taxation		**408**	19	427
Minority interests		**1**	**-**	1
Profit attributable to shareholders		**409**	19	428
Earnings per share	7			
- basic		**4.8p**		5.0p
- diluted		**4.8p**		5.0p

GROUP PROFIT AND LOSS ACCOUNT
for the three months ended September 30, 2003

(unaudited, restated – see note 1)	Notes	**Before goodwill amortisation and exceptional items £m**	Goodwill amortisation and exceptional items (note 4) £m	Total £m
Group turnover	2	**4,568**	**-**	4,568
Other operating income		**44**	**-**	44
Operating costs	3	**(3,865)**	(3)	(3,868)
Group operating profit (loss)	2	**747**	(3)	744
Group's share of operating losses of associates and joint ventures		**(4)**	-	(4)
Total operating profit (loss)		**743**	(3)	740
Profit on sale of property fixed assets		**1**	**-**	1
Net interest payable	5	**(216)**	(18)	(234)
Profit (loss) before taxation		**528**	(21)	507
Taxation		**(148)**	16	(132)
Profit (loss) after taxation		**380**	(5)	375
Minority interests		**1**	-	1
Profit (loss) attributable to shareholders		**381**	(5)	376
Earnings per share	7			
- basic		**4.4p**		4.3p
- diluted		**4.4p**		4.3p

GROUP PROFIT AND LOSS ACCOUNT
for the six months ended September 30, 2004

(unaudited)	Notes	**Before goodwill amortisation and exceptional items £m**	Goodwill amortisation and exceptional items (note 4) £m	Total £m
Group turnover	2	**9,169**	-	9,169
Other operating income		**84**	-	84
Operating costs	3	**(7,872)**	(28)	(7,900)
Group operating profit (loss)	2	**1,381**	(28)	1,353
Group's share of operating losses of associates and joint ventures		**(2)**	-	(2)
Total operating profit (loss)		**1,379**	(28)	1,351
Profit on sale of fixed asset investments and group undertakings		-	28	28
Profit on sale of property fixed assets		**15**	-	15
Net interest payable	5	**(411)**	-	(411)
Profit before taxation		**983**	-	983
Taxation		**(256)**	5	(251)
Profit after taxation		**727**	5	732
Minority interests		**1**	-	1
Profit attributable to shareholders		**728**	5	733
Dividends	6			(332)
Retained profit for the period				401
Earnings per share	7			
- basic		**8.5p**		8.6p
- diluted		**8.5p**		8.5p

GROUP PROFIT AND LOSS ACCOUNT
for the six months ended September 30, 2003

(unaudited, restated – see note 1)	Notes	**Before goodwill amortisation and exceptional items £m**	Goodwill amortisation and exceptional items (note 4) £m	Total £m
Group turnover	2	**9,154**	-	9,154
Other operating income		**96**	-	96
Operating costs	3	**(7,774)**	(6)	(7,780)
Group operating profit (loss)	2	**1,476**	(6)	1,470
Group's share of operating losses of associates and joint ventures		**(7)**	-	(7)
Total operating profit (loss)		**1,469**	(6)	1,463
Loss on sale of fixed asset investments and group undertakings		**-**	(1)	(1)
Profit on sale of property fixed assets		**1**	-	1
Net interest payable	5	**(441)**	(18)	(459)
Profit (loss) before taxation		**1,029**	(25)	1,004
Taxation		**(301)**	16	(285)
Profit (loss) after taxation		**728**	(9)	719
Minority interests		**7**	-	7
Profit (loss) attributable to shareholders		**735**	(9)	726
Dividends	6			(278)
Retained profit for the period				448
Earnings per share	7			
- basic		**8.5p**		8.4p
- diluted		**8.5p**		8.4p

GROUP CASH FLOW STATEMENT
for the three months and six months ended September 30, 2004

(unaudited)	Second quarter ended September 30 2004 £m	Second quarter ended September 30 *2003* *£m*	Half year ended September 30 2004 £m	Half year ended September 30 *2003* *£m*
Net cash inflow from operating activities (note 8)	1,413	*1,274*	2,619	*2,783*
Dividends from associates and joint ventures	1	*1*	1	*1*
Net cash outflow for returns on investments and servicing of finance*	(95)	*(169)*	(397)	*(459)*
Taxation paid	(1)	*(1)*	(42)	*(9)*
Purchase of tangible fixed assets	(794)	*(595)*	(1,538)	*(1,202)*
Net sale of fixed asset investments	2	*61*	25	*61*
Sale of tangible fixed assets	68	*14*	83	*28*
Net cash outflow for capital expenditure and financial investments	(724)	*(520)*	(1,430)	*(1,113)*
Free cash inflow before acquisitions, disposals and dividends	594	*585*	751	*1,203*
Acquisitions	(21)	*(5)*	(23)	*(5)*
Disposals	34	*1*	34	*1*
Net cash inflow (outflow) for acquisitions and disposals	13	*(4)*	11	*(4)*
Equity dividends paid	(454)	*(368)*	(454)	*(368)*
Cash inflow before use of liquid resources and financing	153	*213*	308	*831*
Management of liquid resources	33	*892*	89	*501*
Repurchase of ordinary share capital	(68)	-	(99)	-
Repayment of loans	(104)	*(1,139)*	(276)	*(1,151)*
Net cash outflow from financing	(172)	*(1,139)*	(375)	*(1,151)*
Increase (decrease) in cash	14	*(34)*	22	*181*
Decrease in net debt from cash flows (note 9)	85	*213*	209	*831*

*Net of interest payments on restructuring currency swap portfolio	(18)	-	(36)	-

GROUP BALANCE SHEET
at September 30, 2004

	September 30		*March 31*
	2004	*2003*	*2004*
	(unaudited)		
		(restated)*	*(restated*)*
	£m	*£m*	*£m*
Fixed assets			
Intangible assets	201	*201*	*204*
Tangible assets	15,552	*15,525*	*15,487*
Investments	313	*366*	*324*
	16,066	*16,092*	*16,015*
Current assets			
Stocks	118	*91*	*89*
Debtors	5,374	*4,930*	*5,189*
Investments	5,046	*6,036*	*5,163*
Cash at bank and in hand	117	*42*	*109*
	10,655	*11,099*	*10,550*
Creditors: amounts falling due within one year			
Loans and other borrowings	1,017	*2,262*	*1,271*
Other creditors	7,354	*6,873*	*7,252*
	8,371	*9,135*	*8,523*
Net current assets	2,284	*1,964*	*2,027*
Total assets less current liabilities	18,350	*18,056*	*18,042*
Creditors: amounts falling due after more than one year			
Loans and other borrowings	12,413	*12,584*	*12,426*
Provisions for liabilities and charges	2,475	*2,351*	*2,504*
Minority interests	48	*50*	*46*
Capital and reserves (note 10)			
Called up share capital	432	*434*	*432*
Reserves	2,982	*2,637*	*2,634*
Total equity shareholders' funds	3,414	*3,071*	*3,066*
	18,350	*18,056*	*18,042*

*See note 1 for details of restatement.

NOTES

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 from previously being based on the book value of shares held in the ESOP trusts to being based on the fair value of shares at the date the award is made.

An additional charge of £3 million for the year ended March 31, 2004 and of £2 million for the half year and £1 million for the quarter ended September 30, 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 September 30, 2003 has been to reduce fixed assets by £53 million, to reduce other creditors by £15 million and to reduce shareholders' funds by £38 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
Second quarter ended September 30, 2004					
BT Retail	3,023	98	3,121	287	322
BT Wholesale	952	1,287	2,239	484	960
BT Global Services	621	878	1,499	(13)	129
Other	6	-	6	(20)	30
Intra-group items (i)	-	(2,263)	(2,263)	-	-
Total	4,602	-	4,602	738	1,441
Second quarter ended September 30, 2003 (restated – see page 22)					
BT Retail	3,126	75	3,201	316	357
BT Wholesale	851	1,349	2,200	477	950
BT Global Services	587	794	1,381	(39)	117
Other	4	1	5	(7)	45
Intra-group items (i)	-	(2,219)	(2,219)	-	-
Total	4,568	-	4,568	747	1,469
Half year ended September 30, 2004					
BT Retail	6,044	193	6,237	546	614
BT Wholesale	1,893	2,597	4,490	941	1,894
BT Global Services	1,219	1,691	2,910	(49)	231
Other	13	-	13	(57)	44
Intra-group items (i)	-	(4,481)	(4,481)	-	-
Total	9,169	-	9,169	1,381	2,783
Half year ended September 30, 2003 (restated – see page 22)					
BT Retail	6,253	121	6,374	642	730
BT Wholesale	1,737	2,723	4,460	979	1,926
BT Global Services	1,154	1,572	2,726	(90)	212
Other	10	1	11	(55)	60
Intra-group items (i)	-	(4,417)	(4,417)	-	-
Total	9,154	-	9,154	1,476	2,928

(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

	Second quarter ended September 30				Half year ended September 30	
	2004	*2003*	Better (worse)		2004	*2003*
	£m	*£m*	£m	%	£m	*£m*
Group turnover						
Solutions	763	*645*	118	18	1,449	*1,259*
C&SI (i)	192	*162*	30	19	384	*306*
Global Products	456	*443*	13	3	909	*876*
Global Carrier	251	*235*	16	7	490	*466*
Other and eliminations	(163)	*(104)*	(59)	(57)	(322)	*(181)*
	1,499	*1,381*	118	9	2,910	*2,726*
EBITDA						
Solutions	82	*76*	6	8	145	*138*
C&SI (i)	8	*5*	3	60	12	*9*
Global Products	37	*27*	10	37	67	*48*
Global Carrier	39	*32*	7	22	84	*72*
Other (ii)	(37)	*(23)*	(14)	(61)	(77)	*(55)*
	129	*117*	12	10	231	*212*
Operating profit (loss) (iii)						
Solutions	62	*57*	5	9	106	*100*
C&SI (i)	6	*3*	3	100	8	*5*
Global Products	(55)	*(70)*	15	21	(116)	*(144)*
Global Carrier	17	*10*	7	70	41	*27*
Other (ii)	(43)	*(39)*	(4)	(10)	(88)	*(78)*
	(13)	*(39)*	26	67	(49)	*(90)*
Capital expenditure	169	*102*	(67)	(66)	318	*204*

(i) Formerly known as BT Syntegra.

(ii) Other is after charging leaver costs of £3m in the second quarter (£5m last year) and £16m in the half year ended September 30, 2004 (£13m last year).

(iii) Before goodwill amortisation.

2 Results of businesses *continued*

(c) Group turnover analysis

	Second quarter ended September 30				Half year ended September 30	
	2004	*2003*	Better (worse)		2004	*2003*
	£m	*£m*	£m	%	£m	*£m*
Traditional	3,569	*3,807*	(238)	(6)	7,200	*7,683*
New wave	1,033	*761*	272	36	1,969	*1,471*
	4,602	*4,568*	34	1	9,169	*9,154*
Consumer	1,421	*1,498*	(77)	(5)	2,846	*2,995*
Business	629	*654*	(25)	(4)	1,252	*1,304*
Major Corporate	1,444	*1,413*	31	2	2,868	*2,829*
Wholesale/Carrier	1,102	*999*	103	10	2,190	*2,016*
Other	6	*4*	2	50	13	*10*
	4,602	*4,568*	34	1	9,169	*9,154*

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 (formerly BT Syntegra).
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

	Second quarter ended September 30		Half year ended September 30	
	2004	*2003*	2004	*2003*
	£m	*£m*	£m	*£m*
BT Retail	36	*20*	64	*40*
BT Wholesale				
Access	274	*232*	543	*447*
Switch	25	*22*	55	*33*
Transmission	50	*46*	95	*100*
Products/systems support	196	*108*	327	*196*
	545	*408*	1,020	*776*
BT Global Services				
C&SI and Solutions	61	*25*	108	*61*
UK Networks	35	*35*	72	*59*
Other	73	*42*	138	*84*
	169	*102*	318	*204*
Other (including fleet vehicles and property)	53	*48*	95	*110*
Total	803	*578*	1,497	*1,130*

3 Operating costs

	Second quarter ended September 30		Half year ended September 30	
	2004	*2003 (restated)*	2004	*2003 (restated)*
	£m	*£m*	£m	*£m*
Net staff costs before leaver costs	831	*892*	1,706	*1,795*
Leaver costs	8	*16*	110	*27*
Net staff costs	839	*908*	1,816	*1,822*
Depreciation	702	*721*	1,401	*1,450*
Payments to telecommunication operators	965	*1,027*	1,953	*2,066*
Other operating costs	1,401	*1,209*	2,702	*2,436*
Total before goodwill amortisation and exceptional items	3,907	*3,865*	7,872	*7,774*
Goodwill amortisation	4	*3*	8	*6*
Exceptional items	3	*-*	20	*-*
Total	3,914	*3,868*	7,900	*7,780*

4 Exceptional items and goodwill amortisation

	Second quarter ended September 30		Half year ended September 30	
	2004	*2003*	2004	*2003*
	£m	*£m*	£m	*£m*
Exceptional operating costs	(3)	-	(20)	-
Profit (loss) on sale of fixed asset investments and group undertakings	25	-	28	*(1)*
Net interest payable	-	*(18)*	-	*(18)*
Goodwill amortisation	(4)	*(3)*	(8)	*(6)*
Net charge before tax and minority interests	18	*(21)*	-	*(25)*

5 Net interest payable

	Second quarter ended September 30		Half year ended September 30	
	2004	*2003*	2004	*2003*
	£m	*£m*	£m	*£m*
Group	268	*352*	527	*640*
Joint ventures and associates	7	*5*	9	*10*
Total interest payable	275	*357*	536	*650*
Interest receivable	(68)	*(123)*	(125)	*(191)*
Net interest payable	207	*234*	411	*459*
Analysed:				
Before exceptional items	207	*216*	411	*441*
Exceptional items	-	*18*	-	*18*
Total	207	*234*	411	*459*

6 Dividends

	Half year ended September 30		Half year ended September 30	
	2004	*2003*	2004	*2003*
	pence per share		£m	*£m*
Interim dividend	3.90	*3.20*	332	*278*

An interim dividend of 3.90 pence per share will be paid on February 7, 2005 to shareholders on the register on December 31, 2004.

7 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:

	Second quarter ended September 30		Half year ended September 30	
	2004	*2003*	2004	*2003*
	millions of shares		millions of shares	
Basic	8,535	*8,633*	8,546	*8,628*
Diluted	8,596	*8,695*	8,597	*8,675*

8 Reconciliation of operating profit to operating cash flow

	Second quarter ended September 30		Half year ended September 30	
	2004	*2003 (restated)*	2004	*2003 (restated)*
	£m	*£m*	£m	*£m*
Group operating profit	731	*744*	1,353	*1,470*
Depreciation and amortisation	707	*725*	1,410	*1,458*
Changes in working capital	(37)	*(234)*	(201)	*(221)*
Provision movements, pensions and other	12	*39*	57	*76*
Net cash inflow from operating activities	1,413	*1,274*	2,619	*2,783*

9 Net debt

(a) Analysis

	At September 30 2004 £m	*2003 £m*	*At March 31 2004 £m*
Long-term loans and other borrowings falling due after more than one year	12,413	*12,584*	*12,426*
Short-term borrowings and long-term loans and other borrowings falling due within one year	1,017	*2,262*	*1,271*
Total debt	13,430	*14,846*	*13,697*
Short-term investments	(5,046)	*(6,036)*	*(5,163)*
Cash at bank	(117)	*(42)*	*(109)*
Net debt at end of period	8,267	*8,768*	*8,425*

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

	Second quarter ended September 30 2004 £m	*2003 £m*	Half year ended September 30 2004 £m	*2003 £m*
Net debt at beginning of period	8,317	*8,988*	8,425	*9,573*
Decrease in net debt resulting from cash flows	(85)	*(213)*	(209)	*(831)*
Currency and other movements	-	*(3)*	-	*2*
Other non-cash movements	35	*(4)*	51	*24*
Net debt at end of period	8,267	*8,768*	8,267	*8,768*

10 Share capital and reserves

	Share capital £m	Reserves *(restated)* £m	Total *(restated)* £m
Balances at April 1, 2004	432	2,634	3,066
Profit for the six months ended September 30, 2004	-	733	733
Dividend	-	(332)	(332)
Currency movements	-	12	12
Other	-	(65)	(65)
Balances at September 30, 2004	432	2,982	3,414

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

	Second quarter ended September 30		Half year ended September 30	
	2004	*2003 (restated)*	2004	*2003 (restated)*
	£m	*£m*	£m	*£m*
Group operating profit	731	744	1,353	1,470
Exceptional items	3	-	20	-
Depreciation	703	722	1,402	1,452
Goodwill amortisation	4	3	8	6
EBITDA before exceptional items	1,441	1,469	2,783	2,928

12 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.

	Second quarter ended September 30		Half year ended September 30	
	2004	*2003*	2004	*2003*
Net income attributable to shareholders including exceptional items (£m)	407	*90*	480	*378*
Earnings per ADS (£)				
- basic	0.48	*0.10*	0.56	*0.44*
- diluted	0.47	*0.10*	0.56	*0.44*

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 £1,442m deficit at September 30, 2004 (September 30, 2003 - £2,213m, March 31, 2004 - £1,455m).

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: expectations regarding broadband, ICT, mobility and managed services growth, DSL broadband roll out, and revenues from new wave products and services; implementation of BT's 21st century network; the completion and expected benefits of the acquisition of Infonet; and expectations regarding cost transformation, investment and improving earnings whilst building for the future.

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 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.