

February 9, 2006

THIRD QUARTER AND NINE MONTHS RESULTS TO DECEMBER 31, 2005

THIRD QUARTER HIGHLIGHTS

- Revenue of £4,946 million, up 8 per cent (3 per cent excluding acquisitions)
- New wave revenue of £1,607 million, up 42 per cent, represents one third of total
- EBITDA before specific items¹ and leaver costs of £1,404 million, down £8 million
- Profit before taxation, specific items¹ and leaver costs of £568 million, up 2 per cent
- Earnings per share before specific items¹ and leaver costs of 5.1 pence, up 4 per cent
- Broadband net additions of 0.7 million, BT Retail's share was 31 per cent

The income statement, cash flow statement and balance sheet, drawn up in accordance with IFRS, from which this information is extracted are set out on pages 12 to 18.

¹Specific items are material one off or unusual items as defined in note 4 on page 22.

Chief Executive's statement

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

“We have delivered yet another good set of results in a dynamic business environment.

"Revenue has grown by 8 per cent and new wave turnover - which now represents one third of our business - is up 42 per cent. Earnings per share* have grown for the fifteenth quarter in a row and the improving trend in underlying EBITDA continues. BT Retail's profitability has grown strongly driven by innovative products and services aligned with continued focus on cost management. Our international business continues to grow rapidly and now delivers services in more than 160 countries around the world. We are fast establishing ourselves as a global leader.

“Broadband growth continues to be very strong with the number of BT Wholesale connections now standing at more than seven million. This is pushing the UK to the front of Europe in broadband take up.

"The transformation of the business continues to deliver value to our customers and shareholders."

* Before leaver costs and specific items which are material one off or unusual items as defined in note 4 on page 22.

**RESULTS FOR THE THIRD QUARTER AND NINE MONTHS
TO DECEMBER 31, 2005**

	Third quarter			Nine months		
	2005	2004	Better (worse)	2005	2004	Better (worse)
	£m	£m	%	£m	£m	%
Revenue	4,946	4,584	8	14,551	13,753	6
EBITDA						
- before specific items and leaver costs	1,404	1,412	(1)	4,152	4,219	(2)
- before specific items	1,381	1,400	(1)	4,086	4,097	-
Profit before taxation						
- before specific items and leaver costs	568	558	2	1,681	1,642	2
- before specific items	545	546	-	1,615	1,520	6
- after specific items	545	795	(31)	1,533	1,777	(14)
Earnings per share						
- before specific items and leaver costs	5.1p	4.9p	4	14.9p	14.2p	5
- before specific items	4.9p	4.8p	2	14.4p	13.2p	9
- after specific items	4.9p	7.7p	(36)	13.7p	16.3p	(16)
Capital expenditure	759	770	1	2,169	2,267	4
Free cash flow	138	387*	(64)	515	1,138*	(55)
Net debt				8,113	8,046	(1)

* Includes disposal proceeds of £450 million (nine months - £475 million) mainly from the sale of the Eutelsat and Starhub investments.

The commentary focuses on the results before specific items and leaver costs. This is consistent with the way that financial performance is measured by management and we believe allows a meaningful analysis to be made of the trading results of the group. Specific items are defined in note 4 on page 22.

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

The income statement, cash flow statement and balance sheet are provided on pages 12 to 18. A reconciliation of EBITDA to group operating profit is provided on page 26. A definition and reconciliation of net debt is provided on page 25.

GROUP RESULTS

Revenue was 8 per cent higher at £4,946 million in the quarter with the continued strong growth of new wave revenue more than offsetting the decline in traditional revenue. Underlying revenue, adjusted for the acquisitions of Albacom and Infonet, was 3 per cent higher than last year. Earnings per share before specific items and leaver costs increased by 4 per cent to 5.1 pence, the fifteenth consecutive quarter of year on year growth. EBITDA before specific items and leaver costs was down 0.6 per cent compared to 2.3 per cent last quarter, continuing the improving trend of recent quarters.

The strong growth in new wave business has continued and at £1,607 million new wave revenue was 42 per cent higher than last year and now represents one third of the group's total revenue. New wave revenue is mainly generated from networked IT services, broadband and mobility. Networked IT services revenue grew by 42 per cent to £1,046 million, broadband revenue increased by 48 per cent to £374 million and mobility revenue increased by 22 per cent to £67 million. Excluding Albacom and Infonet, the organic growth in new wave revenue was 27 per cent.

Networked IT services contract wins were £1.2 billion in the third quarter and the value of total orders achieved over the last twelve months was £8.1 billion. BT had 6.9 million wholesale broadband connections at December 31, 2005, an increase of 2.8 million connections compared to last year. As a demonstration of BT's commitment to delivering higher speed broadband to UK consumers, technical trials are underway to deliver broadband speeds of up to 8Mbps near nationally. The service will be launched in Spring 2006. During the third quarter, we commenced sales of BT Fusion, the world's first seamless combined fixed and mobile communications service on a single handset.

Revenue from the group's traditional businesses declined by 3 per cent (5 per cent excluding the impact of Albacom) continuing recent trends. This reflects regulatory intervention, competition, price reductions and also technological changes that we are using to drive customers from traditional services to new wave services.

Consumer revenue in the third quarter was 5 per cent lower. New wave consumer revenue increased by 43 per cent, driven by the continuing growth of broadband. Traditional consumer revenue declined by 10 per cent year on year reflecting the continued impact of Carrier Pre-Selection (CPS), Wholesale Line Rental (WLR) and broadband substitution.

The underlying 12 month rolling average revenue per consumer household (net of mobile termination charges) of £252 declined by £1 compared to last quarter, with increased broadband volumes almost offsetting lower call revenues. Contracted revenues were 66 per cent of the total, which is 5 percentage points higher than last year.

Revenue from smaller and medium sized (SME) UK businesses declined by 5 per cent. New wave revenue grew by 14 per cent driven by continued growth in broadband and networked IT services. The number of BT Business Plan locations increased by 24 per cent against last year to 520,000 by December 31, 2005, an increase of 3 per cent in the quarter. BT Business Plan now covers over 50 per cent of SME call revenues.

Major corporate (UK and international) revenue showed continued strong growth of 20 per cent compared to the third quarter of last year, with growth in new wave revenue (44 per cent) more than offsetting the decline in traditional services. Excluding the impact of Albacom and Infonet, revenue grew by 9 per cent. There is a continued migration from traditional voice only services to networked IT services and an increase in mobility and broadband revenue. New wave revenue now represents 59 per cent of major corporate revenues.

Wholesale (UK and Global Carrier) revenue increased by 16 per cent (12 per cent excluding the impact of Albacom). UK Wholesale new wave revenue increased by 47 per cent to £265 million, mainly driven by broadband and managed services.

Our estimate of market share by volume of fixed to fixed voice minutes is based on our actual minutes, market data provided by Ofcom and an extrapolation of the historical trends. BT's estimated UK consumer market share declined by 1.2 percentage points compared to last quarter to around 58 per cent whilst the estimated business market share remained at around 41 per cent.

Group operating costs before specific items increased by 10 per cent year on year to £4,329 million, including the costs from Albacom and Infonet. Net staff costs before leaver costs increased by £51 million to £980 million due mainly to the acquisitions of Albacom and Infonet, the additional staff to grow networked IT services and increased levels of activity in the network. Leaver costs were £23 million in the quarter (£12 million last year). Payments to other telecommunication operators increased by 11 per cent year on year at £981 million mainly due to the impact of Albacom and Infonet. Other operating costs before specific items increased by £217 million mainly due to increased costs of sales from both organic and inorganic growth in networked IT services, partly offset by cost savings from our efficiency programmes. Depreciation and amortisation increased by 2 per cent year on year to £710 million.

EBITDA before specific items and leaver costs decreased by 0.6 per cent compared to the 2.3 per cent decline last quarter, continuing the improvement in the underlying trend seen during the year. Group operating profit before specific items and leaver costs decreased by 3 per cent to £694 million.

Net finance costs were £129 million, an improvement of £20 million against last year with the net finance income associated with the group's defined benefit pension obligation of £64 million being £14 million higher than last year.

Profit before taxation, specific items and leaver costs increased by 2 per cent to £568 million with the reduction in net finance costs and share of profits of associates and joint ventures offsetting the reduction in group operating profit.

The effective tax rate on the profit before specific items was 24.6 per cent (25.6 per cent last year). The effective tax rate reflects tax efficient investment of surplus cash and the continued focus on tax efficiency within the group.

Earnings per share before specific items increased by 2 per cent to 4.9 pence, and increased by 4 per cent before specific items and leaver costs.

Cash flow and net debt

Net cash from operating activities in the third quarter amounted to £1,218 million, an increase of £144 million primarily as a result of lower working capital outflows and tax payments in the quarter.

Cash flows from investing activities were a net cash inflow of £1,027 million in the third quarter compared to an outflow of £290 million last year. This includes the cash inflow of £1,706 million upon the maturity of investments, which were used to fund partly the repayment of maturing debt. The net cash outflow from capital expenditure, net of disposal proceeds, amounted to £725 million in the quarter compared to £755 million last year.

Cash flows from financing activities were a net outflow of £2,741 million in the third quarter compared to £1,340 million last year due to the repayment of maturing debt of £1,862 million.

Free cash flow was a net inflow of £138 million in the third quarter (£387 million last year). Last year included disposal proceeds of £450 million mainly relating to the sale of the non current asset investments in Eutelsat and Starhub. The share buyback programme continued with the repurchase of 58 million shares for £125 million in the quarter. Net debt was £8,113 million at December 31, 2005, a reduction of £20 million in the quarter. Free cash flow and net debt are defined in notes 7 and 8 on pages 23 to 25.

Pensions

The IAS 19 net pension obligation at December 31, 2005 was a deficit of £2.9 billion, net of tax, being a reduction of £0.4 billion since March 31, 2005. The BT Pension Scheme had assets of £34 billion at December 31, 2005.

21st Century Network

BT continued to make good progress on its 21CN programme during the quarter. Following the successful conclusion to the second phase of 21CN voice transformation trials on strategic equipment in December 2005, the next phase, the trial of telephone services over the IP network, will begin in the spring.

Operational planning to migrate customers to the 21CN in Cardiff, which will see the first live operation of 21CN, is well advanced. Following successful implementation in Cardiff, BT will proceed to a planned national migration programme. Through the communication forum, Consult 21, BT, in close consultation with industry and Ofcom, has made good progress in agreeing the detailed voice migration plans for the entirety of the migration period.

Line of business results

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

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

Openreach was launched on January 21, 2006 and will be reported as a separate line of business from the first quarter of next year.

The fourth quarter and full year results are expected to be announced on May 18, 2006.

BT Retail

	Third quarter ended December 31				Nine months ended December 31	
	2005	2004*	Better (worse)		2005	2004*
	£m	£m	£m	%	£m	£m
Revenue	<u>2,117</u>	<u>2,175</u>	(58)	(3)	<u>6,372</u>	<u>6,595</u>
Gross margin	592	596	(4)	(1)	1,741	1,757
SG&A before leaver costs	<u>385</u>	<u>412</u>	27	7	<u>1,150</u>	<u>1,191</u>
EBITDA before leaver costs	207	184	23	13	591	566
Leaver costs	<u>8</u>	<u>1</u>	(7)	n/m	<u>13</u>	<u>9</u>
EBITDA	199	183	16	9	578	557
Depreciation and amortisation	<u>36</u>	<u>33</u>	(3)	(9)	<u>109</u>	<u>109</u>
Operating profit	<u>163</u>	<u>150</u>	13	9	<u>469</u>	<u>448</u>
Capital expenditure	<u>32</u>	<u>44</u>	12	27	<u>100</u>	<u>116</u>

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

BT Retail's EBITDA was 9 per cent higher than last year, building on the growth reported last quarter. This is a significant turnaround over the previous year's trends. Gross margins increased by 0.6 percentage points due to improved margin management and greater network efficiency, coupled with cost transformation programmes which helped contribute to SG&A savings of £27 million. These factors more than compensated for the 3 per cent decline in revenues. Overall these results led to an improvement in operating profit in the quarter to £163 million which is 9 per cent higher than last year.

New wave revenue grew by 34 per cent but was more than offset by the traditional revenue decline of 8 per cent. New wave revenue was 16 per cent of total revenue in the quarter, up from 12 per cent last year.

The reduction in revenue from traditional services was driven by the continued high levels of migration to new wave services such as broadband, which is reflected in a fall of over 45 per cent in dial up internet minutes and a reduction of 8 per cent in ISDN lines.

We have had success with new initiatives to add value to customer propositions, such as BT Privacy. More than 2.9 million customers have registered for the service, an increase of 61 per cent from last quarter.

Broadband revenue grew by 40 per cent to £188 million. The growth of broadband continues with 2,328,000 BT Retail connections at December 31, 2005, an increase of 10 per cent in the quarter. Net additions of 217,000 were a 31 per cent share of the BT Wholesale broadband DSL additions in the quarter, an increase of 4 percentage points compared to

previous quarter. Market share additions of DSL plus LLU, were 28 per cent in the quarter, an increase of 3 percentage points compared to the previous quarter.

In October, we re-launched our simplified consumer broadband tariffs, offering new and existing customers wireless routers as standard in the higher tier products, enhanced security features and the option of price competitive Voice over IP (VoIP) services. Overall consumer broadband net additions were 176,000 for the quarter, an increase in net additions of 11 per cent compared with the previous quarter.

Business broadband sales orders increased over 30 per cent in the quarter. The number of customers also taking additional value add services increased over one hundred per cent in the quarter with each broadband order including an average of 1.1 value add services.

Revenue from mobility services increased by 37 per cent year on year to £41 million. BT Fusion, the world's first seamless combined fixed and mobile service, has generated significant customer interest. Following launch of the market leading V3B (Motorola RAZR) phone, weekly customer connections have continued to rise, and reached over 2,000 for the week ending February 3, 2006, bringing the total number of Fusion customers to over 13,000. The launch of a BT Fusion proposition for the business market is expected to accelerate further connections over the next quarter.

Our plan is to introduce a range of converged next generation services to help make life simpler and better for our customers. At the heart of this will be the BT Hub, which will enable wireless networking for all the family's PCs and laptops, next generation TV, voice calls over broadband, video telephony, high definition voice, monitoring services and remote diagnostics. Our next generation TV service offering, to be launched later this year, will include content from Warner Music, Paramount Pictures, BBC Worldwide, National Geographic Channel, Hit Entertainment and Nelvana.

BT Wholesale

	Third quarter ended December 31				Nine months ended December 31	
	2005 £m	2004* £m	Better (worse) £m %		2005 £m	2004* £m
External revenue	1,070	954	116	12	3,115	2,847
Internal revenue	<u>1,236</u>	<u>1,318</u>	(82)	(6)	<u>3,773</u>	<u>3,961</u>
Revenue	2,306	2,272	34	1	6,888	6,808
Variable cost of sales	<u>551</u>	<u>544</u>	(7)	(1)	<u>1,634</u>	<u>1,653</u>
Gross variable profit	1,755	1,728	27	2	5,254	5,155
Network and SG&A before leaver costs	<u>777</u>	<u>743</u>	(34)	(5)	<u>2,315</u>	<u>2,216</u>
EBITDA before leaver costs	978	985	(7)	(1)	2,939	2,939
Leaver costs	<u>2</u>	<u>1</u>	(1)	n/m	<u>8</u>	<u>59</u>
EBITDA	976	984	(8)	(1)	2,931	2,880
Depreciation and amortisation	<u>467</u>	<u>473</u>	6	1	<u>1,386</u>	<u>1,429</u>
Operating profit	<u>509</u>	<u>511</u>	(2)	-	<u>1,545</u>	<u>1,451</u>
Capital expenditure	<u>491</u>	<u>514</u>	23	4	<u>1,422</u>	<u>1,539</u>

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

BT Wholesale revenue of £2,306 million increased by 1 per cent driven by external revenue growth of 12 per cent. Increases in external revenue were attributable to strong revenue growth in WLR and new wave services. External revenue from new wave services increased by 47 per cent to £265 million and now accounts for 25 per cent of external revenue compared to 19 per cent last year.

Internal revenue declined by 6 per cent to £1,236 million due to the impact of lower volumes of calls and lines and lower regulatory prices being reflected in internal charges. This was partially offset by strong growth from internal broadband revenue.

Gross variable profit of £1,755 million is 2 per cent higher than last year as a result of overall volume increases and a favourable change in sales mix, with broadband growth more than offsetting the decline in traditional products. Higher network and SG&A costs reflect benefits from improved working capital management last year, and higher broadband activity levels this year combined with investment to improve customer service. Overall, this has resulted in a slight decline in EBITDA. Lower depreciation has resulted in operating profit remaining flat.

Capital expenditure in the quarter was 4 per cent lower than last year. Investment in legacy network technologies is lower than last year, whilst capital expenditure continues to be focused on the 21st Century Network and supporting the growth in broadband.

BT Movio, a wholesale service providing mobile operators with TV and radio channels to mobile handsets is set for commercial launch later this year. BT Movio intends to be the first wholesale mobile broadcast entertainment service to launch in the UK and will provide consumers with a simple to use and reliable digital TV and radio service.

BT Global Services

	Third quarter ended December 31				Nine months ended December 31	
	2005 £m	2004* £m	Better (worse) £m %		2005 £m	2004* £m
Revenue	2,211	1,843	368	20	6,391	5,426
EBITDA before leaver costs	246	245	1	-	718	704
Leaver costs	<u>4</u>	<u>6</u>	2	33	<u>28</u>	<u>44</u>
EBITDA	242	239	3	1	690	660
Depreciation and amortisation	<u>160</u>	<u>133</u>	(27)	(20)	<u>470</u>	<u>402</u>
Operating profit	<u>82</u>	<u>106</u>	(24)	(23)	<u>220</u>	<u>258</u>
Capital expenditure	<u>169</u>	<u>141</u>	(28)	(20)	<u>482</u>	446

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

BT Global Services revenue for the quarter rose by 20 per cent to £2,211 million. Underlying growth, excluding acquisitions, was 8 per cent. Revenue growth was driven by networked IT services. In addition Multi Protocol Label Switching (MPLS) grew 35 per cent year on year. Carrier revenue in underlying terms was up 2 per cent in addition to being boosted by additional revenues from Albacom. Order intake remained very strong with networked IT services contract orders of £1.2 billion taken in the quarter resulting in orders of £8.1 billion over the last twelve months. A €450 million five year contract with Fiat was secured during the quarter as well as a realigned and extended contract with the Department for Work and Pensions.

EBITDA before leaver costs increased year on year by £1 million. Growth in new wave and MPLS profitability, including the effect of acquisitions, of £26 million was largely offset by the ongoing decline in UK traditional products, including migration to IPVPNs sold to UK corporates and further reductions in dial IP due to broadband substitution. Higher depreciation costs in the acquisitions led to a fall in operating profit of £24 million.

Capital expenditure in the quarter at £169 million rose by £28 million due mostly to the impact of expenditure in Albacom and Infonet.

BT is playing a prominent role in the NHS National Programme for IT delivering the national broadband network (N3), the Spine transactional and messaging database and the London local service provider IT systems. BT successfully installed 12,000 connections on the N3 network five months ahead of schedule. Spine now has more than 180,000 registered users. In London, BT delivered on schedule the first patient administration system specifically designed for the National Programme, to Queen Mary's Sidcup. BT continues the roll out of additional deployments across London, including Picture Archiving and Communications Systems.

GROUP INCOME STATEMENT
for the three months ended December 31, 2005

(unaudited)	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	4,946	-	4,946
Other operating income		54	-	54
Operating costs	3	<u>(4,329)</u>	<u>-</u>	<u>(4,329)</u>
Operating profit	2	671	-	671
Finance costs		(693)	-	(693)
Finance income		<u>564</u>	<u>-</u>	<u>564</u>
Net finance costs	5	(129)	-	(129)
Share of post tax profits of associates and joint ventures		<u>3</u>	<u>-</u>	<u>3</u>
Profit before taxation		545	-	545
Taxation		<u>(134)</u>	<u>-</u>	<u>(134)</u>
Profit for the period attributable to equity shareholders		<u>411</u>	<u>-</u>	<u>411</u>
Earnings per share	6			
- basic		<u>4.9p</u>		<u>4.9p</u>
- diluted		<u>4.8p</u>		<u>4.8p</u>

GROUP INCOME STATEMENT
for the three months ended December 31, 2004

(unaudited)	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	4,584	-	4,584
Other operating income		55	-	55
Operating costs	3	(3,934)	(10)	(3,944)
Profit on sale of non current asset investments		<u>-</u>	<u>284</u>	<u>284</u>
Operating profit	2	705	274	979
Finance costs		(692)	-	(692)
Finance income		<u>543</u>	<u>-</u>	<u>543</u>
Net finance costs	5	(149)	-	(149)
Share of post tax losses of associates and joint ventures		<u>(10)</u>	<u>(25)</u>	<u>(35)</u>
Profit before taxation		546	249	795
Taxation		<u>(140)</u>	<u>3</u>	<u>(137)</u>
Profit for the period attributable to equity shareholders		<u>406</u>	<u>252</u>	<u>658</u>
Earnings per share	6			
- basic		<u>4.8p</u>		<u>7.7p</u>
- diluted		<u>4.7p</u>		<u>7.7p</u>

GROUP INCOME STATEMENT
for the nine months ended December 31, 2005

(unaudited)	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	14,551	-	14,551
Other operating income		149	-	149
Operating costs	3	<u>(12,725)</u>	<u>(82)</u>	<u>(12,807)</u>
Operating profit (loss)	2	1,975	(82)	1,893
Finance costs		(2,085)	-	(2,085)
Finance income		<u>1,714</u>	<u>-</u>	<u>1,714</u>
Net finance costs	5	(371)	-	(371)
Share of post tax profits of associates and joint ventures		<u>11</u>	<u>-</u>	<u>11</u>
Profit (loss) before taxation		1,615	(82)	1,533
Taxation		<u>(402)</u>	<u>25</u>	<u>(377)</u>
Profit (loss) for the period attributable to equity shareholders		<u>1,213</u>	<u>(57)</u>	<u>1,156</u>
Earnings per share	6			
- basic		<u>14.4p</u>		<u>13.7p</u>
- diluted		<u>14.2p</u>		<u>13.5p</u>

GROUP INCOME STATEMENT
for the nine months ended December 31, 2004

(unaudited)	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	13,753	-	13,753
Other operating income		154	-	154
Operating costs	3	(11,909)	(30)	(11,939)
Profit on sale of non current asset investments		<u>-</u>	<u>312</u>	<u>312</u>
Operating profit	2	1,998	282	2,280
Finance costs		(2,084)	-	(2,084)
Finance income		<u>1,626</u>	<u>-</u>	<u>1,626</u>
Net finance costs	5	(458)	-	(458)
Share of post tax losses of associates and joint ventures		<u>(20)</u>	<u>(25)</u>	<u>(45)</u>
Profit before taxation		1,520	257	1,777
Taxation		<u>(396)</u>	<u>8</u>	<u>(388)</u>
Profit for the period		<u>1,124</u>	<u>265</u>	<u>1,389</u>
Attributable to:				
Equity shareholders		1,125	265	1,390
Minority interests		<u>(1)</u>	<u>-</u>	<u>(1)</u>
Earnings per share	6			
- basic		<u>13.2p</u>		<u>16.3p</u>
- diluted		<u>13.1p</u>		<u>16.2p</u>

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the nine months ended December 31, 2005

(unaudited)	Nine months ended December 31	
	2005 £m	2004 £m
Profit for the period	<u>1,156</u>	<u>1,389</u>
Actuarial gains on defined benefit pension obligation	625	800
Net losses on cash flow hedges	(117)	-
Exchange differences on translation of foreign operations	23	47
Tax on items taken directly to equity	<u>(153)</u>	<u>(240)</u>
Net gains recognised directly in equity	<u>378</u>	<u>607</u>
Total recognised income for the period	<u>1,534</u>	<u>1,996</u>
Effect of adoption of IAS 32 and IAS 39	<u>(337)</u>	-
Total recognised income attributable to equity shareholders	<u>1,197</u>	<u>1,996</u>

GROUP CASH FLOW STATEMENT
for the three months and nine months ended December 31, 2005

(unaudited)	Third quarter ended December 31		Nine months ended December 31	
	2005 £m	2004 £m	2005 £m	2004 £m
Cash flow from operating activities				
Cash generated from operations (note 7 (a))	1,293	1,207	3,639	3,830
Income taxes paid	<u>(75)</u>	<u>(133)</u>	<u>(317)</u>	<u>(175)</u>
Net cash inflow from operating activities	1,218	1,074	3,322	3,655
Cash flow from investing activities				
Net sale (acquisition) of subsidiaries, associates and joint ventures	(24)	(11)	(112)	-
Net purchase of property, plant, equipment and software	(725)	(755)	(2,082)	(2,210)
Interest received	70	32	166	135
Net sale of short term investments and non current asset investments	<u>1,706</u>	<u>444</u>	<u>2,288</u>	<u>722</u>
Net cash received (used) in investing activities	1,027	(290)	260	(1,353)
Cash flows from financing activities				
Repurchase of ordinary share capital	(124)	(31)	(233)	(130)
Net repayments of borrowings	(2,182)	(895)	(2,206)	(1,171)
Interest paid	(426)	(414)	(891)	(918)
Equity dividends paid	<u>(9)</u>	<u>-</u>	<u>(549)</u>	<u>(454)</u>
Net cash used in financing activities	(2,741)	(1,340)	(3,879)	(2,673)
Effects of exchange rate changes	<u>(23)</u>	<u>(22)</u>	<u>-</u>	<u>(20)</u>
Net decrease in cash and cash equivalents	<u>(519)</u>	<u>(578)</u>	<u>(297)</u>	<u>(391)</u>
Cash and cash equivalents at beginning of period	1,532	1,192	1,310	1,005
Cash and cash equivalents, net of bank overdrafts, at end of period (note 7 (c))	<u>1,013</u>	<u>614</u>	<u>1,013</u>	<u>614</u>
Free cash flow (note 7 (b))	<u>138</u>	<u>387</u>	<u>515</u>	<u>1,138</u>
Increase (decrease) in net debt from cash flows (note 8 (b))	<u>19</u>	<u>(345)</u>	<u>379</u>	<u>(554)</u>

GROUP BALANCE SHEET
at December 31, 2005

(unaudited)	December 31 2005 £m	December 31 2004 £m	March 31 2005 £m
Non current assets			
Goodwill and other intangible assets	1,518	759	1,259
Property, plant and equipment	15,347	15,179	15,386
Other non current assets	116	438	133
Deferred tax assets	<u>1,222</u>	<u>1,301</u>	<u>1,434</u>
	<u>18,203</u>	<u>17,677</u>	<u>18,212</u>
Current assets			
Inventories	125	119	106
Trade and other receivables	4,640	4,100	4,269
Other financial assets	1,548	3,983	3,634
Cash and cash equivalents	<u>1,247</u>	<u>615</u>	<u>1,312</u>
	<u>7,560</u>	<u>8,817</u>	<u>9,321</u>
Total assets	25,763	26,494	27,533
Current liabilities			
Loans and other borrowings	3,471	1,883	4,261
Trade and other payables	6,102	5,776	6,772
Other current liabilities	<u>1,137</u>	<u>1,146</u>	<u>1,080</u>
	<u>10,710</u>	<u>8,805</u>	<u>12,113</u>
Total assets less current liabilities	<u>15,053</u>	<u>17,689</u>	<u>15,420</u>
Non current liabilities			
Loans and other borrowings	7,493	9,965	7,744
Deferred tax liabilities	1,520	1,737	1,715
Retirement benefit obligations	4,074	4,336	4,781
Other non current liabilities	<u>1,404</u>	<u>1,230</u>	<u>1,085</u>
	<u>14,491</u>	<u>17,268</u>	<u>15,325</u>
Capital and reserves			
Called up share capital	432	432	432
Reserves	<u>80</u>	<u>(60)</u>	<u>(387)</u>
Total equity shareholders' funds	512	372	45
Minority interests	<u>50</u>	<u>49</u>	<u>50</u>
Total equity	<u>562</u>	<u>421</u>	<u>95</u>
	<u>15,053</u>	<u>17,689</u>	<u>15,420</u>

NOTES (unaudited)

1 Accounting policies and basis of preparation

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

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

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

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

2 Results of businesses

(a) Operating results

	External revenue £m	Internal revenue £m	Group revenue £m	Group operating profit (loss) (ii) £m	EBITDA (ii) £m
<i>Third quarter ended</i>					
<i>December 31, 2005</i>					
BT Retail	2,036	81	2,117	163	199
BT Wholesale	1,070	1,236	2,306	509	976
BT Global Services	1,837	374	2,211	82	242
Other	3	-	3	(83)	(36)
Intra-group items (i)	-	(1,691)	(1,691)	-	-
Total	<u>4,946</u>	<u>-</u>	<u>4,946</u>	<u>671</u>	<u>1,381</u>
<i>Third quarter ended</i>					
<i>December 31, 2004</i>					
<i>(restated – see below)</i>					
BT Retail	2,111	64	2,175	150	183
BT Wholesale	954	1,318	2,272	511	984
BT Global Services	1,513	330	1,843	106	239
Other	6	-	6	(62)	(6)
Intra-group items (i)	-	(1,712)	(1,712)	-	-
Total	<u>4,584</u>	<u>-</u>	<u>4,584</u>	<u>705</u>	<u>1,400</u>
<i>Nine months ended</i>					
<i>December 31, 2005</i>					
BT Retail	6,130	242	6,372	469	578
BT Wholesale	3,115	3,773	6,888	1,545	2,931
BT Global Services	5,293	1,098	6,391	220	690
Other	13	-	13	(259)	(113)
Intra-group items (i)	-	(5,113)	(5,113)	-	-
Total	<u>14,551</u>	<u>-</u>	<u>14,551</u>	<u>1,975</u>	<u>4,086</u>
<i>Nine months ended</i>					
<i>December 31, 2004</i>					
<i>(restated – see below)</i>					
BT Retail	6,410	185	6,595	448	557
BT Wholesale	2,847	3,961	6,808	1,451	2,880
BT Global Services	4,477	949	5,426	258	660
Other	19	-	19	(159)	-
Intra-group items (i)	-	(5,095)	(5,095)	-	-
Total	<u>13,753</u>	<u>-</u>	<u>13,753</u>	<u>1,998</u>	<u>4,097</u>

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

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

2 Results of businesses *continued*

(b) Revenue analysis

	Third quarter ended December 31				Nine months ended December 31	
	2005 £m	2004 £m	Better (worse) £m %		2005 £m	2004 £m
Traditional	3,339	3,449	(110)	(3)	10,120	10,649
New wave	<u>1,607</u>	<u>1,135</u>	472	42	<u>4,431</u>	<u>3,104</u>
	<u>4,946</u>	<u>4,584</u>	362	8	<u>14,551</u>	<u>13,753</u>
Consumer	1,333	1,409	(76)	(5)	4,012	4,255
Business	573	606	(33)	(5)	1,752	1,858
Major Corporate	1,769	1,473	296	20	5,065	4,341
Wholesale/Carrier	1,268	1,090	178	16	3,709	3,280
Other	<u>3</u>	<u>6</u>	(3)	(50)	<u>13</u>	<u>19</u>
	<u>4,946</u>	<u>4,584</u>	362	8	<u>14,551</u>	<u>13,753</u>

(c) New wave revenue analysis

	Third quarter ended December 31				Nine months ended December 31	
	2005 £m	2004 £m	Better (worse) £m %		2005 £m	2004 £m
Networked IT services	1,046	738	308	42	2,868	2,071
Broadband	374	253	121	48	1,038	638
Mobility	67	55	12	22	193	147
Other	<u>120</u>	<u>89</u>	31	35	<u>332</u>	<u>248</u>
	<u>1,607</u>	<u>1,135</u>	472	42	<u>4,431</u>	<u>3,104</u>

(d) Capital expenditure⁽¹⁾ on property, plant, equipment, software and motor vehicles:

	Third quarter ended December 31				Nine months ended December 31	
	2005 £m	2004 £m	Better (worse) £m %		2005 £m	2004 £m
BT Retail	32	44	12	27	100	116
BT Wholesale						
Access	238	268	30	11	723	811
Switch	9	31	22	71	27	86
Transmission	45	73	28	38	143	168
Products/systems support	<u>199</u>	<u>142</u>	(57)	(40)	<u>529</u>	<u>474</u>
	491	514	23	4	1,422	1,539
BT Global Services	169	141	(28)	(20)	482	446
Other (including fleet vehicles and property)	<u>67</u>	<u>71</u>	4	6	<u>165</u>	<u>166</u>
Total	<u>759</u>	<u>770</u>	11	1	<u>2,169</u>	<u>2,267</u>

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

3 Operating costs

	Third quarter ended December 31		Nine months ended December 31	
	2005	2004	2005	2004
	£m	£m	£m	£m
Net staff costs ¹ before leaver costs	980	929	2,947	2,686
Leaver costs	<u>23</u>	<u>12</u>	<u>66</u>	<u>122</u>
Net staff costs	1,003	941	3,013	2,808
Depreciation and amortisation	710	695	2,111	2,099
Payments to telecommunication operators	981	880	2,891	2,832
Other operating costs	<u>1,635</u>	<u>1,418</u>	<u>4,710</u>	<u>4,170</u>
Total before specific items	4,329	3,934	12,725	11,909
Specific items (note 4)	<u>-</u>	<u>10</u>	<u>82</u>	<u>30</u>
Total	<u>4,329</u>	<u>3,944</u>	<u>12,807</u>	<u>11,939</u>

¹Net staff costs comprise gross staff costs less own work capitalised.

4 Specific items

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

	Third quarter ended December 31		Nine months ended December 31	
	2005	2004	2005	2004
	£m	£m	£m	£m
Operating costs (income)				
Creation of Openreach	-	-	70	-
Property rationalisation costs	-	10	12	30
Profit on sale of non current asset investments	<u>-</u>	<u>(284)</u>	<u>-</u>	<u>(312)</u>
Total specific items	<u>-</u>	<u>(274)</u>	<u>82</u>	<u>(282)</u>

5 Net finance costs

	Third quarter ended December 31		Nine months ended December 31	
	2005	2004	2005	2004
	£m	£m	£m	£m
Finance costs ¹ before pension interest	239	262	723	794
Interest on pension scheme liabilities	<u>454</u>	<u>430</u>	<u>1,362</u>	<u>1,290</u>
Finance costs	<u>693</u>	<u>692</u>	<u>2,085</u>	<u>2,084</u>
Finance income before pension income	(46)	(63)	(161)	(187)
Expected return on pension scheme assets	<u>(518)</u>	<u>(480)</u>	<u>(1,553)</u>	<u>(1,439)</u>
Finance income	<u>(564)</u>	<u>(543)</u>	<u>(1,714)</u>	<u>(1,626)</u>
Net finance costs	<u>129</u>	<u>149</u>	<u>371</u>	<u>458</u>

¹Finance costs in the third quarter and nine months ended December 31, 2005 include a £1 million charge and £6 million net credit, respectively, arising from the re-measurement of financial instruments which are not in hedging relationships on a fair value basis. A component of these net credits in the nine months ended December 31, 2005 is the fair value movement in, and realised gain arising from, the early redemption of the US dollar 2008 LG Telecom convertible bond amounting to £27 million.

6 Earnings per share

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

	Third quarter ended December 31		Nine months ended December 31	
	2005	2004	2005	2004
	Millions of shares		Millions of shares	
Basic	8,407	8,512	8,444	8,535
Diluted	8,523	8,579	8,560	8,591

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

	Third quarter ended December 31		Nine months ended December 31	
	2005	2004	2005	2004
	£m	£m	£m	£m
Profit before tax	545	795	1,533	1,777
Depreciation and amortisation	710	695	2,111	2,099
Associates and joint ventures	(3)	35	(11)	45
Employee share scheme costs	22	8	59	20
Net finance costs	129	149	371	458
Profit on disposal of property assets and non current asset investments	-	(291)	-	(334)
Changes in working capital	(124)	(216)	(585)	(367)
Provisions movements, pensions and other	<u>14</u>	<u>32</u>	<u>161</u>	<u>132</u>
Cash generated from operations	<u>1,293</u>	<u>1,207</u>	<u>3,639</u>	<u>3,830</u>

7 (b) Free cash flow

	Third quarter ended December 31		Nine months ended December 31	
	2005	2004	2005	2004
	£m	£m	£m	£m
Cash generated from operations	1,293	1,207	3,639	3,830
Income taxes paid	(75)	(133)	(317)	(175)
Net cash inflow from operating activities	1,218	1,074	3,322	3,655
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	(725)	(755)	(2,082)	(2,210)
Net (purchase) sale of non current asset investments	-	450	(1)	475
Dividends received from associates	1	-	1	1
Interest received	70	32	166	135
Included in cash flows from financing activities				
Interest paid	(426)	(414)	(891)	(918)
Free cash flow	<u>138</u>	<u>387</u>	<u>515</u>	<u>1,138</u>

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

(c) Cash and cash equivalents

	At December 31		At March 31
	2005	2004	2005
	£m	£m	£m
Cash at bank and in hand	502	132	206
Short term deposits	<u>745</u>	<u>483</u>	<u>1,106</u>
Cash and cash equivalents	1,247	615	1,312
Bank overdrafts	<u>(234)</u>	<u>(1)</u>	<u>(2)</u>
	<u>1,013</u>	<u>614</u>	<u>1,310</u>

8 Net debt

Net debt at December 31, 2005 was £8,113 million (December 31, 2004 - £8,046 million, March 31, 2005 - £7,893 million).

8 Net debt *continued*

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

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

(a) Analysis

	At December 31		At March 31
	2005	2004	2005
	£m	£m	£m
Loans and other borrowings	10,964	11,848	12,005
Cash and cash equivalents	(1,247)	(615)	(1,312)
Other current financial assets ¹	(1,289)	(3,964)	(3,491)
	8,428	7,269	7,202
Adjustments:			
To retranslate currency denominated balances at swapped rates where hedged	(40)	777	691
To recognise investments and borrowings at net proceeds and unamortised discount	(287)	-	-
Other	12	-	-
Net debt	<u>8,113</u>	<u>8,046</u>	<u>7,893</u>

After allocating the element of the adjustments which impact loans and other borrowings, gross debt at December 31, 2005 was £10,420 million (December 31, 2004 - £12,644 million, March 31, 2005 - £12,696 million).

¹Excluding derivative financial instruments of £259 million, £19 million and £143 million at December 31, 2005 and 2004 and March 31, 2005, respectively.

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

	Third quarter ended		Nine months	
	December 31		ended December 31	
	2005	2004	2005	2004
	£m	£m	£m	£m
Net debt at beginning of period	8,133	8,373	7,893	8,530
Increase (decrease) in net debt resulting from cash flows	19	(345)	379	(554)
Net debt assumed or issued on acquisitions	-	-	1	-
Currency movements	(41)	(21)	(65)	20
Other non-cash movements	2	39	(95)	50
Net debt at end of period	<u>8,113</u>	<u>8,046</u>	<u>8,113</u>	<u>8,046</u>

9 Changes in equity

	Nine months ended December 31	
	2005 £m	2004 £m
Shareholders' funds (deficit)	45	(1,085)
Minority interests	<u>50</u>	<u>46</u>
	95	(1,039)
Effect of adoption of IAS 32 and IAS 39	<u>(337)</u>	<u>-</u>
Deficit at beginning of period	(242)	(1,039)
Total recognised income for the period	1,534	1,996
Employee share schemes	48	43
Issues of shares	4	-
Net movement in treasury shares	(231)	(135)
Dividends on ordinary shares	(551)	(454)
Other	<u>-</u>	<u>10</u>
Net changes in equity for the financial period	804	1,460
Equity at end of period		
Shareholders' funds	512	372
Minority interests	<u>50</u>	<u>49</u>
	<u>562</u>	<u>421</u>

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

	Third quarter ended December 31		Nine months ended December 31	
	2005 £m	2004 £m	2005 £m	2004 £m
Operating profit	671	979	1,893	2,280
Specific items (note 4)	-	(274)	82	(282)
Depreciation and amortisation (note 3)	<u>710</u>	<u>695</u>	<u>2,111</u>	<u>2,099</u>
EBITDA before specific items	<u>1,381</u>	<u>1,400</u>	<u>4,086</u>	<u>4,097</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 4.3 pence per share (3.9 pence last year) on November 10, 2005. This will be paid on February 13, 2006 to shareholders who were on the register at December 30, 2005. This interim dividend, amounting to £362 million (£332 million last year) has not been included as a liability as at December 31, 2005. It will be recognised as an appropriation of retained earnings within shareholders' equity in the quarter ended March 31, 2006.

12 United States Generally Accepted Accounting Principles (US GAAP)

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

	Third quarter ended December 31		Nine months ended December 31	
	2005	2004	2005	2004
Net income attributable to shareholders (£m)	253	503	836	983
Earnings per ADS (£)				
- basic	0.30	0.59	0.99	1.15
- diluted	0.29	0.58	0.97	1.14

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

Shareholders' equity, calculated in accordance with US GAAP, is a £780 million deficit at December 31, 2005 (December 31, 2004 - £1,304 million deficit, March 31, 2005 - £584 million deficit).

13 Reconciliation of UK GAAP to IFRS for comparative periods

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

In this interim statement the group is also presenting a reconciliation from UK GAAP to IFRS of the profit for the comparable financial period (the quarter and nine months ended December 31, 2004), together with the equity at the end of the comparable period (December 31, 2004).

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

(a) Reconciliation of profit between UK GAAP and IFRS

	Notes	Third quarter ended December 31 2004 £m	Nine months ended December 31 2004 £m
Profit attributable to shareholders under UK GAAP		653	1,385
Effect of transition to IFRS (net of tax)			
Pensions	i	22	64
Goodwill	ii	4	12
Share based payments	iii	(6)	(15)
Leases	iv	(18)	(55)
Other		<u>3</u>	<u>(2)</u>
Profit attributable to shareholders under IFRS		<u>658</u>	<u>1,389</u>

(b) Reconciliation of equity between UK GAAP and IFRS

	Notes	At December 31 2004 £m
Total equity under UK GAAP		4,104
Effect of transition to IFRS (net of tax)		
Pensions	i	(3,762)
Goodwill	ii	12
Share based payments	iii	4
Leases	iv	(269)
Dividends	v	<u>332</u>
Total equity under IFRS		<u>421</u>

Notes

i Pensions

Cumulative actuarial gains and losses in respect of the group's defined benefit pension schemes have been recognised in full on transition to IFRS (April 1, 2004). Actuarial gains and losses arising from the transition date are being recognised immediately in reserves, in accordance with the amended version of IAS 19 "Employee benefits". An actuarial gain of £560 million (net of tax) arose in the nine months ended December 31, 2004. The income statement charge is split between an operating charge and a net finance charge. The charge to operating costs in respect of pensions has increased by £19 million for the third quarter ended December 31, 2004 (£58 million for the nine months ended December 31, 2004) and net finance income has

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

i Pensions *continued*

increased by £50 million for the third quarter ended December 31, 2004 (£149 million for the nine months ended December 31, 2004), giving rise to an overall increase in earnings of £31 million for the quarter ended December 31, 2004 (£91 million for the nine months ended December 31, 2004). The associated deferred tax benefit recognised in the income statement for the quarter ended December 31, 2004 was £9 million (£27 million for the nine months ended December 31, 2004).

A pension liability was recognised at December 31, 2004 of £4,336 million and associated deferred tax asset of £1,301 million. This was offset by the reversal of provisions and other creditors of £37 million. The pension prepayment of £1,099 million on the UK GAAP balance sheet has also been reversed including the associated deferred tax liability of £335 million. The net effect has been a reduction in shareholders' funds of £3,762 million.

ii Goodwill

The group has used the exemption available under IFRS 1 for not restating business combinations. IFRS 3 "Business Combinations" requires that goodwill arising from business combinations should not be amortised. Accordingly, the UK GAAP goodwill amortisation charge of £4 million for the quarter ended December 31, 2004 (£12 million for the nine months ended 31 December 2004) has been reversed. There is no tax impact.

iii Share based payments

Under IFRS 2 "Share based payment", an expense must be recognised in the income statement for all share based payments. This expense is based on the fair value at the date of the award, using an option pricing model, and is charged to the income statement over the related performance period. This has resulted in an increased operating charge for the quarter ended December 31, 2004 of £8 million (£20 million for the nine months ended December 31, 2004). The credit entry for the share based payments is recognised directly in reserves as the awards are equity settled, therefore there is no overall impact on shareholders' equity.

iv Leases

Under IAS 17 "Leases" the buildings element of a small number of properties have been reclassified from operating leases under UK GAAP to finance leases under IFRS, and lease rentals under BT's sale and leaseback transactions are recognised on a straight line basis. For those properties reclassified as finance leases, profit before tax for the quarter ended December 31, 2004 has been reduced by £1 million (£3 million for the nine months ended December 31, 2004) as a result of the recognition of depreciation and finance lease interest charges and the removal of the UK GAAP operating lease charges. Recognising the operating lease charges on

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

a straight line basis has further reduced profit before tax for the quarter ended December 31, 2004 by £25 million (£76 million for the nine months ended December 31, 2004). The associated deferred tax benefit recognised in the income statement for the quarter ended December 31, 2004 was £8 million (£24 million for the nine months ended December 31, 2004).

v Dividends

Under UK GAAP the dividend charge was recognised in the profit and loss account in the period to which it related. Under IFRS, dividends are not recognised in the income statement but directly within reserves. The final dividend is recognised only when it has been declared and approved by the company in general meeting. Interim dividends are recognised when they are paid. Therefore the interim dividend liability of £332 million has been reversed because it was paid after December 31, 2004.

Forward-looking statements – caution advised

Certain statements in this results release are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: continued growth in new wave revenue, mainly from networked IT services, broadband and mobility growth; implementation of BT's 21st Century Network programme; cost transformation and savings; introduction of next generation services; and delivering value through transformation of the business.

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services, including broadband and other new wave initiatives, not being realised; and general financial market conditions affecting BT's performance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

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