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BT GROUP PLC
Form 6-K
February 12, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

12 February, 2004

BT Group plc
(Translation of registrant's name into English)

BT Centre
81 Newgate Street
London
EC1A 7AJ
England

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F..X... Form 40-F.....

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No ..X..

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- _____

Enclosures: 1. 3rd Quarter Results announcement made on 12 February 2004

February 12, 2004

THIRD QUARTER AND NINE MONTHS RESULTS TO DECEMBER 31, 2003

THIRD QUARTER HIGHLIGHTS

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- Earnings per share* of 4.4 pence, up 7 per cent
- Profit before taxation* of GBP526 million, up 1 per cent
- Group turnover of GBP4,578 million, down 2.6 per cent (down 1.4 per cent excluding the impact of mobile termination rate reductions)
- New wave turnover of GBP838 million, up 31 per cent
- Net debt of GBP8,795 million, 32 per cent lower than previous year
- Contract wins of over GBP2 billion in the quarter
- Broadband end users approaching 2 million

*Before goodwill amortisation and exceptional items.

Chief Executive's statement

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

"The transformation of our marketplace is accelerating and BT is driving that change by providing our customers with new technology and services with greater capabilities and lower cost.

"Our new wave revenues grew by 31 per cent in the quarter, our highest rate of growth yet. This has offset much of the impact of the 6 per cent* decline in our traditional business.

"The momentum of this transformation is building with broadband volumes now approaching 2 million lines and we are now taking orders of over 45,000 per week. In addition, we are becoming a major international ICT solutions provider with well over GBP2 billion of orders in this quarter alone."

Group Finance Director's statement

Ian Livingston, Group Finance Director, commenting on the third quarter results, said:

"Earnings per share before goodwill amortisation and exceptional items increased by 7 per cent over last year to 4.4 pence in the quarter, and by 26 per cent to 13.0 pence per share in the nine months which is more than twice the level of two years ago.

"Profit before tax, goodwill amortisation and exceptional items increased by 1 per cent despite the challenges faced by our business as the pace of transformation quickens. This has been achieved through the success of our continued cost efficiency programmes and lower interest charges.

"We remain committed to growing long term shareholder value by transforming our revenue streams to new wave products and services; driving more than GBP1 billion of cost savings over the next 3 years; investing for the future; and managing the group's balance sheet more effectively."

*After adjusting for the impact of regulatory reductions to mobile termination rates.

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RESULTS FOR THE THIRD QUARTER AND NINE MONTHS
TO DECEMBER 31, 2003

BT Group's results before goodwill amortisation and exceptional items

| | Third quarter | | | Nine months | | | |
|----------------------------|---------------|--------------|---------------------|--------------|--------------|---------------------|-----|
| | 2003 GBPm | 2002 GBPm | Better (worse) % | 2003 GBPm | 2002 GBPm | Better (worse) % | |
| Group turnover | 4,578 | 4,701 | (3) | 13,732 | 13,949 | | (2) |
| EBITDA | 1,474 | 1,513 | (3) | 4,404 | 4,294 | | 3 |
| EBITDA before leaver costs | 1,500 | 1,525 | (2) | 4,457 | 4,499 | | (1) |
| Group operating profit | 743 | 758 | (2) | 2,221 | 2,057 | | 8 |
| Net interest charge | 223 | 285 | 22 | 664 | 880 | | 25 |
| Profit before taxation | 526 | 521 | 1 | 1,557 | 1,339 | | 16 |
| Profit after taxation | 382 | 354 | 8 | 1,112 | 900 | | 24 |
| Earnings per share | 4.4p | 4.1p | 7 | 13.0p | 10.3p | | 26 |
| Capital expenditure | 699 | 613 | (14) | 1,829 | 1,721 | | (6) |
| Free cash flow | (68) | 19 | n/m | 1,135 | 777 | | 46 |
| Net debt | | | | 8,795 | 12,917 | | 32 |

The results in the table above and the commentary focus on the results before goodwill amortisation and exceptional items.

Total earnings per share and profit before tax, after goodwill amortisation and exceptional items, for the third quarter are 4.5 pence (2002 - 5.2 pence) and GBP519 million (2002 - GBP567 million) respectively. For the nine months they are 12.9 pence (2002 - 12.0 pence) and GBP1,525 million (2002 - GBP1,440 million).

The full profit and loss account, cash flow statement and balance sheet are provided on pages 15 to 20.

GROUP RESULTS

Whilst driving a significant transformation in our business, BT continued to

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make further progress in the quarter with earnings per share before goodwill amortisation and exceptional items 7 per cent ahead of the same quarter last year and 26 per cent ahead in the nine months to date.

The acceleration of this transformation is demonstrated by the 31 per cent growth of new wave turnover to GBP838 million compared to a 25 per cent increase in the second quarter. New wave turnover represented 18 per cent of total turnover in the quarter, compared to 14 per cent in the third quarter of last year. New wave turnover is mainly generated from Information and Communications Technology (ICT) solutions, broadband, mobility and managed services. Performance in the quarter was driven by particularly strong growth in broadband and our solutions businesses. However, this was more than offset by an 8 per cent decline in turnover from the group's traditional businesses. This decline reflects regulatory intervention, price reductions and technological changes that we are using to drive customers from traditional services to better value and more flexible new wave services, such as broadband and IPVPN's. The decline in traditional turnover is 6 per cent after excluding the impact of regulatory reductions to mobile termination rates. These reductions are passed on to BT customers resulting in lower charges but are profit neutral.

The pace of this change means it has continued to be a challenging quarter in which total group turnover decreased by 2.6 per cent year on year to GBP4,578 million. Excluding the regulatory reductions on mobile termination rates underlying turnover fell by 1.4 per cent, which compares to the 0.6 per cent decline last quarter.

Consumer revenues in the third quarter were 3 per cent lower (2 per cent lower excluding the impact of reductions to mobile termination rates) year on year. BT Together packages provide an important element in defending traditional turnover with an increase of 73,000 customers over last year. In the consumer fixed voice market, Carrier Pre Selection (CPS) has had some impact on our business with BT's consumer market share, as measured by volume of fixed to fixed voice minutes, declining by 0.2 percentage points to an estimated 72.2 per cent compared to last quarter. The underlying average revenue per customer household (net of mobile termination charges) of GBP269 was broadly in line with the level achieved in the third quarter of last year. Contracted revenues have increased to 59 per cent compared to 56 per cent last year.

The aggregate Business and Major Corporate revenues also declined by 3 per cent year on year. BT's business market share of fixed to fixed voice minutes declined by only 0.2 percentage points to an estimated 41.0 per cent compared to last quarter despite the effect of CPS. This compares to a quarterly decline of around 0.9 percentage points over the previous four quarters.

Revenues from smaller and medium sized businesses reduced by 6 per cent (GBP41 million) from the third quarter last year, showing the net impact of call volume reductions in our traditional telephony services as customers switch into new wave services such as broadband. However, BT Business Plan, launched in January 2003, had successfully attracted more than 216,000 business locations (147,000 customers) by December 31, 2003, helping to stem the rate of market share decline.

Major Corporate (UK and international) revenues reduced by 2 per cent (GBP31 million) with the growing new wave turnover not fully offsetting the decline in traditional UK services. There is a continued migration of traditional voice only services to managed ICT contracts. Contract wins from the Solutions and BT Syntegra businesses amounted to more than GBP2 billion in the third quarter. Within this are two contracts that BT Syntegra won against multi-national IT competitors from the Department of Health as part of the NHS National Programme for IT, worth an expected GBP1.6 billion over the next 10 years. Group ICT turnover grew by 18 per cent to GBP0.6 billion in the quarter confirming BT's status as a major provider in this market.

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Wholesale (UK and international) revenue fell by 1 per cent (2 per cent increase excluding impact of reductions to mobile termination rates). We achieved 52 per cent growth in new wave turnover from our UK Wholesale business which partly compensated for the decline in our UK Wholesale prices. The international carrier business turnover grew by 16 per cent in the third quarter, of which 5 percentage points were due to currency movements.

Group operating costs before goodwill amortisation and exceptional items reduced by 3 per cent compared to the third quarter of last year reflecting the group's continued focus on operational efficiency and effectiveness initiatives offset by investment in new wave initiatives and the adverse impact of currency movements of GBP25 million. Net staff costs, excluding leaver costs of GBP26 million, increased by GBP34 million to GBP865 million due to the impact of increases in pay rates, national insurance (GBP8 million) and the SSAP24 pension charge (GBP28 million), offset by improved efficiency. Payments to other telecommunication operators were GBP68 million (7 per cent) lower than last year mainly reflecting a reduction in UK payments, primarily due to the lower mobile termination rates. Other operating costs before goodwill amortisation and exceptional items were reduced by 6 per cent largely due to efficiency cost savings offset by the adverse impact of currency movements.

Depreciation was GBP23 million lower than the third quarter of last year at GBP731 million reflecting more efficient capital expenditure over recent years.

As a result of these cost savings the group operating profit margin before leaver costs was 16.8 per cent, an increase of 0.4 percentage points on the level achieved in the third quarter of last year. We have cost transformation programmes in place to deliver further savings of more than GBP1 billion over the next 3 years.

Group operating profit before goodwill amortisation, exceptional items and leaver costs was flat compared to the third quarter of last year. The GBP14 million increase in leaver costs this year means that the group operating profit after leaver costs was 2 per cent lower than the third quarter of last year. This performance reflects lower profits in the group's UK wholesale and retail businesses partially offset by the GBP62 million improvement in BT Global Services.

BT's share of associates and joint ventures operating profits before goodwill amortisation and exceptional items was GBP5 million in the quarter (GBP47 million last year). The prior year included the results of our interest in Cegetel which was sold in January 2003.

Net interest payable before exceptional items was GBP223 million for the quarter, an improvement of GBP62 million against last year as a result of the significant reduction in the level of net debt. Profit before taxation, goodwill amortisation and exceptional items of GBP526 million in the quarter increased by 1 per cent.

The taxation rate on the profit before exceptional items and goodwill amortisation was 27.4 per cent in the quarter (32.1 per cent last year) and 28.6 per cent for the year to date (32.8 per cent last year). The lower effective tax rate reflects reduced overseas losses for which relief is not available and greater tax efficiency in the group.

Earnings per share before goodwill amortisation and exceptional items were 4.4 pence for the quarter (4.1 pence last year), an increase of 7 per cent and were 13.0 pence for the nine months to December 31, 2003, an increase of 26 per cent over last year.

Exceptional items and goodwill

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There was a net exceptional charge before taxation of GBP4 million in the quarter. During the quarter the group's main disposal was its 7.8 per cent interest in Inmarsat which was sold for US \$118 million (GBP67 million) realising an exceptional profit on disposal of GBP32 million.

An exceptional net interest charge of GBP37 million was incurred in the quarter, being the premium on buying back US \$195 million (GBP135 million) of the group's US dollar bonds.

Goodwill amortisation was GBP3 million for the quarter (GBP5 million last year). Earnings per share after goodwill amortisation and exceptional items were 4.5 pence compared to 5.2 pence last year reflecting the net exceptional credit in 2002/03 relating to the sale of fixed asset investments and group undertakings and the exit from Blu.

Net debt and cash flow

Net debt at December 31, 2003 was GBP8,795 million, 32 per cent below the third quarter last year. Cash inflow from operating activities amounted to GBP1,038 million in the quarter. This is after making special and annual deficiency contributions to the BT Pension Scheme of GBP362 million (GBP329 million last year).

The net cash outflow on fixed asset purchases and sales was GBP599 million in the quarter which compares to GBP523 million last year reflecting the rising investment in our network transformation programme.

The cash generation in the third quarter is usually lower than the other quarters due to the annual special and deficiency pension payment and interest payment dates in December. Free cash flow (before acquisitions and disposals, dividends and financing) was a net outflow of GBP68 million in the quarter compared to an inflow of GBP19 million last year reflecting the higher capital expenditure and the premium on the bond buy back.

The group commenced its share buyback programme in the quarter with 33 million shares repurchased for GBP58 million. This programme is expected to continue in the next quarter.

The group's swap portfolio which hedges foreign exchange and interest rate exposures is being restructured. During the quarter this resulted in a GBP117 million reduction in net debt and this restructuring activity is expected to continue in the next quarter.

Although net debt was not impacted, the group issued a US \$172 million 0.75 per cent exchangeable bond due in 2008, exchangeable into ordinary shares of LG Telecom, BT's Korean based associate. The group also undertook a sale and leaseback of circuit switches which had no effect on net debt but increased both gross debt and cash by around GBP1 billion. The liability will effectively be repaid over four years.

Customer satisfaction

BT has an extensive market research programme conducted by external agencies which focuses on the level and causes of customer dissatisfaction. The group achieved a further 8 percentage point improvement in the level of customer dissatisfaction in the quarter to 18 per cent in the year to date.

Broadband

During the third quarter, additional investment enabled broadband services to be available in exchanges serving 85 per cent of UK homes and we have plans to

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increase broadband coverage to 90 per cent of UK communities by this summer. We aim to reach a target of 100 per cent broadband coverage of every UK community during 2005.

There was an installed base of 1.93 million Wholesale broadband lines by February 6, 2004, three times the number of connections 12 months ago, with net additions growing at more than 33,000 per week. The increasing base is reflected in a 129 per cent increase in broadband revenues to GBP128 million in the quarter.

The fourth quarter and preliminary results of BT Group are expected to be announced on May 20, 2004.

OPERATING PERFORMANCE BY LINE OF BUSINESS

| Third quarter ended December 31, 2003 (i) | Group turnover GBPm | Group operating profit (loss) (iii) GBPm | EBITDA GBPm | Capital expenditure GBPm |
|---|---------------------------|--|----------------|--------------------------------|
| BT Retail | 3,333 | 366 | 404 | 32 |
| BT Wholesale | 2,682 | 421 | 902 | 489 |
| BT Global Services | 1,407 | (22) | 133 | 115 |
| Other | 9 | (22) | 35 | 63 |
| Intra-group items (ii) | (2,853) | - | - | - |
| | ----- | ----- | ----- | ----- |
| Total | 4,578 | 743 | 1,474 | 699 |
| | ===== | ===== | ===== | ===== |

| Nine months ended December 31, 2003 (i) | Group turnover GBPm | Group operating profit (loss) (iii) GBPm | EBITDA GBPm | Capital expenditure GBPm |
|---|---------------------------|--|----------------|--------------------------------|
| BT Retail | 10,014 | 1,124 | 1,250 | 72 |
| BT Wholesale | 8,151 | 1,284 | 2,712 | 1,265 |
| BT Global Services | 4,133 | (112) | 345 | 319 |
| Other | 20 | (75) | 97 | 173 |
| Intra-group items (ii) | (8,586) | - | - | - |
| | ----- | ----- | ----- | ----- |
| Total | 13,732 | 2,221 | 4,404 | 1,829 |
| | ===== | ===== | ===== | ===== |

(i) See note 2 on pages 21 to 25 for prior year figures.

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

(iii) Before goodwill amortisation and exceptional items.

There is extensive trading between BT's lines of business and the line of

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business profitability is dependent on the transfer price levels. The intra-group trading arrangements are subject to review and changed with effect from April 1, 2003 in certain circumstances to reflect reorganisations within the group and regulatory changes. The comparative figures for the lines of business have been restated to reflect these changes but there is no impact at a group level.

The line of business commentaries refer to EBITDA, which is defined as group operating profit before depreciation and amortisation. In addition, reference is made to operating free cash flow, which is defined as EBITDA less capital expenditure.

BT Retail

| | Third quarter ended December 31 | | | | Nine months ended December 31 | |
|---|---------------------------------|---------------|----------------|--------------|-------------------------------|---------------|
| | 2003 GBPm | 2002* GBPm | Better GBPm | (worse) % | 2003 GBPm | 2002* GBPm |
| Group turnover | 3,333 | 3,521 | (188) | (5) | 10,014 | 10,328 |
| Gross margin | 934 | 995 | (61) | (6) | 2,804 | 2,955 |
| Sales, general and administration costs | 530 | 547 | 17 | 3 | 1,554 | 1,643 |
| EBITDA | 404 | 448 | (44) | (10) | 1,250 | 1,312 |
| Depreciation | 38 | 46 | 8 | 17 | 126 | 153 |
| Operating profit | 366 | 402 | (36) | (9) | 1,124 | 1,159 |
| Capital expenditure | 32 | 25 | (7) | (28) | 72 | 69 |
| Operating free cash flow | 372 | 423 | (51) | (12) | 1,178 | 1,243 |

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

Growth in new wave turnover of 21 per cent was more than offset by the 9 per cent decline in the traditional turnover, resulting in an overall decline of 5 per cent compared to the third quarter of last year.

| | Third quarter ended December 31 | | | | Nine months ended December 31 | |
|--------------------|---------------------------------|---------------|----------------|--------------|-------------------------------|---------------|
| | 2003 GBPm | 2002* GBPm | Better GBPm | (worse) % | 2003 GBPm | 2002* GBPm |
| BT Retail turnover | | | | | | |

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| | | | | | | |
|-----------------------|-------|-------|-------|-----|--------|--------|
| Voice Services | 2,241 | 2,456 | (215) | (9) | 6,816 | 7,268 |
| Intermediate Products | 587 | 647 | (60) | (9) | 1,778 | 1,882 |
| | ----- | ----- | | | ----- | ----- |
| Traditional | 2,828 | 3,103 | (275) | (9) | 8,594 | 9,150 |
| | ----- | ----- | | | ----- | ----- |
| ICT | 390 | 376 | 14 | 4 | 1,140 | 1,062 |
| Broadband | 81 | 31 | 50 | 161 | 206 | 89 |
| Mobility | 21 | 9 | 12 | 133 | 50 | 23 |
| Other | 13 | 2 | 11 | n/m | 24 | 4 |
| | ----- | ----- | | | ----- | ----- |
| New Wave | 505 | 418 | 87 | 21 | 1,420 | 1,178 |
| | ----- | ----- | | | ----- | ----- |
| Total | 3,333 | 3,521 | (188) | (5) | 10,014 | 10,328 |
| | ===== | ===== | | | ===== | ===== |

| | | | | | | |
|--|-----|-----|------|------|-----|-----|
| Sales to other BT businesses incl. above | 213 | 256 | (43) | (17) | 627 | 663 |
|--|-----|-----|------|------|-----|-----|

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

Turnover from traditional voice services was 9 per cent lower than the third quarter of last year.

The overall market for fixed to fixed voice call minutes is estimated to have declined by 5 per cent compared to the third quarter of last year, partly reflecting the migration to new wave products and services such as IPVPNs and substitution by e-mail, instant messaging and mobile services.

BT Group's total originating measured call volumes have decreased by 5 per cent. Internet and data related call volumes decreased by 4 per cent, being driven by the migration to broadband which is not measured in minutes and a slow down in the growth of flat rate internet access products. Total geographic (local, national and international) call volumes declined by 9 per cent, largely reflecting the decline in the market and some loss of market share to CPS. Fixed to mobile call volumes declined by 2 per cent after having grown by 1 per cent last quarter.

BT's market share of directory enquiries through the 118 500 service has increased as the benefits and awareness of the quality of service and pricing, supported by the current marketing campaign have become apparent. However, revenues have reduced significantly year on year due to the contraction of the market.

Turnover from intermediate products decreased by 9 per cent compared to the third quarter of last year mainly driven by a decline in retail private circuits and ISDN as customers migrate to cheaper partial private circuits and new wave products including broadband and IPVPN.

New wave turnover in BT Retail continued to reflect the trend experienced in the first half with growth of 21 per cent compared to the third quarter last year. ICT turnover increased by 4 per cent, reflecting the growth in new IP based services offset by a decline in business telephony equipment. Broadband turnover has grown by 161 per cent reflecting the increased take up of broadband, with over 796,000 BT Retail customers. In November, BT entered the consumer mobile market with the launch of BT Mobile Home Plan in retail outlets. Total turnover from mobile services increased by 133 per cent.

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The total number of BT Retail lines, which includes voice, digital and broadband, increased by 1 per cent to 29.6 million since December 31, 2002, reflecting the continued growth in broadband partially offset by declining PSTN lines.

The gross margin reduced by 0.2 percentage points to 28.0 per cent compared to the third quarter of last year, reflecting lower prices and the changes in the revenue mix, partly offset by lower charges from BT Wholesale, in line with market and regulatory prices.

Cost transformation programmes have generated GBP33 million savings (7 per cent) in the traditional business in the quarter partly offset by higher leaver costs.

Operating profit in the quarter of GBP366 million was 9 per cent lower than the prior year. This flows through to an operating free cash flow (EBITDA less capital expenditure) of GBP372 million in the quarter which is 12 per cent lower than the third quarter of last year.

BT Wholesale

| | Third quarter ended December 31 | | | | Nine months ended December 31 | |
|---|---------------------------------|---------------|----------------|--------------|-------------------------------|---------------|
| | 2003 GBPm | 2002* GBPm | Better GBPm | (worse) % | 2003 GBPm | 2002* GBPm |
| External turnover | 858 | 889 | (31) | (3) | 2,581 | 2,625 |
| Internal turnover | 1,824 | 1,962 | (138) | (7) | 5,570 | 5,807 |
| Group turnover | 2,682 | 2,851 | (169) | (6) | 8,151 | 8,432 |
| Total operating costs before depreciation | 1,802 | 1,912 | 110 | 6 | 5,510 | 5,801 |
| Other operating income | 22 | 34 | (12) | (35) | 71 | 94 |
| EBITDA | 902 | 973 | (71) | (7) | 2,712 | 2,725 |
| Depreciation | 481 | 488 | 7 | 1 | 1,428 | 1,438 |
| Operating profit | 421 | 485 | (64) | (13) | 1,284 | 1,287 |
| Capital expenditure | 489 | 430 | (59) | (14) | 1,265 | 1,174 |
| Operating free cash flow | 413 | 543 | (130) | (24) | 1,447 | 1,551 |

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

Operating profit decreased by 13 per cent to GBP421 million on a 6 per cent fall in turnover. EBITDA margin was maintained at the same level as the third quarter last year at 34 per cent, with efficiencies offsetting the effect of a 4 per cent increase in network volumes.

External turnover fell by GBP31 million (3 per cent) which is fully accounted

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for by price reductions on mobile call termination rates which have reduced turnover by GBP35 million, although this has no impact on profitability. In addition, the reductions from the regulatory Network Charge Control (NCC) pricing formulae resulted in weighted average price reductions of 6 per cent across the basket of relevant products. The continued migration from retail private circuits to partial private circuits has also reduced traditional turnover.

New wave external turnover has continued to show strong growth of 52 per cent to GBP100 million driven by the increase in broadband volumes and managed services and completely offsets the reduction in traditional turnover after excluding the impact of the reduced mobile termination rates.

Internal turnover in the quarter of GBP1,824 million showed a decrease of GBP138 million (7 per cent) reflecting lower call and retail private circuit volumes, reductions on mobile termination rates, and price reductions.

BT Wholesale has maintained the focus on managed cash costs (defined as operating costs excluding payments to other network operators and depreciation, plus capital expenditure). Reflecting this continued drive towards improved operating efficiency, BT Wholesale has achieved efficiency savings of GBP79 million in the quarter and is on track to reach its target of GBP250 million for the full year.

BT Global Services

| | Third quarter ended December 31 | | | | Nine months ended December 31 | |
|--------------------------|---------------------------------|---------------|--------------------------|------|----------------------------------|---------------|
| | 2003 GBPm | 2002* GBPm | Better (worse) GBPm % | | 2003 GBPm | 2002* GBPm |
| Group turnover | 1,407 | 1,296 | 111 | 9 | 4,133 | 3,891 |
| EBITDA | 133 | 71 | 62 | 87 | 345 | 149 |
| Operating loss | (22) | (84) | 62 | 74 | (112) | (296) |
| Capital expenditure | 115 | 102 | (13) | (13) | 319 | 293 |
| Operating free cash flow | 18 | (31) | 49 | n/m | 26 | (144) |

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

BT Global Services has produced another quarter of significantly improved profitability and operating free cash flow. Operating losses for the quarter were reduced by GBP62 million (74 per cent) and operating free cash flow improved by GBP49 million to a positive GBP18 million in the quarter, maintaining the positive trend seen in the year to date.

Turnover for the quarter rose by 9 per cent to GBP1,407 million. Solutions grew by 14 per cent reflecting the conversion of the strong order intake over the past twelve months into revenue. BT Syntegra produced another strong quarter's results, with higher revenues from the UK government sector helping it to achieve growth of 11 per cent. Global Products maintained its growth at 9 per cent, continuing to benefit in particular from Multi Protocol Label Switching (MPLS).

BT Syntegra won two major contracts with the Department of Health, as part of

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the NHS National Programme for IT, which together are worth an expected GBP1.6 billion over the next ten years. The first contract is for the design, delivery and management of a national patient record database and transactional messaging service and the second is as the Local Service Provider for London. Orders for the Solutions business amounted to GBP0.7 billion in the third quarter. Total Solutions and BT Syntegra long term contract wins for the last 12 months amount to GBP6.3 billion compared to an annual turnover of around GBP3.4 billion. These contracts will provide the base for future growth.

EBITDA increased by 87 per cent from the third quarter of last year to GBP133 million. Higher turnover, together with lower network, selling, general and administration costs following continuing cost reduction initiatives helped generate a 74 per cent reduction in operating losses. The majority of this improvement is evident in the global products and global carrier businesses.

Global Services' transformation is continuing and it offers the group significant growth opportunities through its international network centric solution and systems integration capabilities. The group will continue to invest in operating and capital expenditure to build on this strong position and realise these opportunities.

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

| (unaudited) | Notes | Before goodwill amortisation and exceptional items GBPm | Goodwill amortisation and exceptional items (note 6) GBPm | Total GBPm |
|---|-------|--|---|-------------------|
| <hr style="border-top: 1px dashed black;"/> | | | | |
| Group turnover | 2, 4 | 4,578 | - | 4,578 |
| Other operating income | | 37 | - | 37 |
| Operating costs | 3 | (3,872) | (3) | (3,875) |
| Group operating profit (loss) | 2 | 743 | (3) | 740 |
| Group's share of operating profits of associates and joint ventures | 4 | 5 | - | 5 |
| Total operating profit (loss) | | 748 | (3) | 745 |
| Profit on sale of fixed asset investments and group | | | | |

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| | | | | |
|--|---|-------|-------|-------|
| undertakings | 5 | - | 33 | 33 |
| Profit on sale of property fixed assets | | 1 | - | 1 |
| Net interest payable | 7 | (223) | (37) | (260) |
| | | ----- | ----- | ----- |
| Profit (loss) before taxation | | 526 | (7) | 519 |
| Taxation | | (144) | 11 | (133) |
| | | ----- | ----- | ----- |
| Profit after taxation and attributable to shareholders | | 382 | 4 | 386 |
| | | ===== | ===== | ===== |
| Earnings per share | 8 | | | |
| - basic | | 4.4p | | 4.5p |
| | | ===== | | ===== |
| - diluted | | 4.4p | | 4.4p |
| | | ===== | | ===== |

GROUP PROFIT AND LOSS ACCOUNT
for the three months ended December 31, 2002

| (unaudited) | Notes | Before goodwill amortisation and exceptional items GBPm | Goodwill amortisation and exceptional items (note 6) GBPm | Total GBPm |
|---|-------|--|---|---------------|
| Group turnover | 2, 4 | 4,701 | - | 4,701 |
| Other operating income | | 52 | - | 52 |
| Operating costs | 3 | (3,995) | (203) | (4,198) |
| | | ----- | --- | ----- |
| Group operating profit (loss) | 2 | 758 | (203) | 555 |
| Group's share of operating profits of associates and joint ventures | 4 | 47 | 150 | 197 |
| Total operating profit (loss) | | ----- | ----- | ----- |
| | | 805 | (53) | 752 |
| Profit on sale | | | | |

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| | | | | |
|--|---|-------|-------|-------|
| of fixed asset investments and group undertakings | | - | 99 | 99 |
| Profit on sale of property fixed assets | | 1 | - | 1 |
| Net interest payable | 7 | (285) | - | (285) |
| | | ----- | ----- | ----- |
| Profit before taxation | | 521 | 46 | 567 |
| Taxation | | (167) | 51 | (116) |
| | | ----- | ----- | ----- |
| Profit after taxation | | 354 | 97 | 451 |
| Minority interests | | 1 | (7) | (6) |
| Profit attributable to shareholders | | 355 | 90 | 445 |
| | | ===== | ===== | ===== |
| Earnings per share | 8 | | | |
| - basic | | 4.1p | | 5.2p |
| | | ===== | | ===== |
| - diluted | | 4.1p | | 5.1p |
| | | ===== | | ===== |

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

| (unaudited) | Notes | Before goodwill amortisation and exceptional items GBPm | Goodwill amortisation and exceptional items (note 6) GBPm | Total GBPm |
|--|-------|--|---|---------------|
| Group turnover | 2, 4 | 13,732 | - | 13,732 |
| Other operating income | | 133 | - | 133 |
| Operating costs | 3 | (11,644) | (9) | (11,653) |
| | | ----- | ----- | ----- |
| Group operating profit (loss) | 2 | 2,221 | (9) | 2,212 |
| Group's share of operating losses of associates and joint ventures | 4 | (2) | - | (2) |
| | | ----- | ----- | ----- |
| Total | | | | |

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| | | | | |
|--|---|-------|-------|-------|
| operating profit (loss) | | 2,219 | (9) | 2,210 |
| Profit on sale of fixed asset investments and group undertakings | 5 | - | 32 | 32 |
| Profit on sale of property fixed assets | | 2 | - | 2 |
| Net interest payable | 7 | (664) | (55) | (719) |
| | | ----- | ----- | ----- |
| Profit (loss) before taxation | | 1,557 | (32) | 1,525 |
| Taxation | | (445) | 27 | (418) |
| | | ----- | ----- | ----- |
| Profit (loss) after taxation | | 1,112 | (5) | 1,107 |
| Minority interests | | 7 | - | 7 |
| | | ----- | ----- | ----- |
| Profit (loss) attributable to shareholders | | 1,119 | (5) | 1,114 |
| | | ===== | ===== | |
| Dividends | | | | (278) |
| | | | | ----- |
| Retained profit for the period | | | | 836 |
| | | | | ===== |
| Earnings per share | 8 | | | |
| - basic | | 13.0p | | 12.9p |
| | | ===== | | ===== |
| - diluted | | 12.9p | | 12.8p |
| | | ===== | | ===== |

GROUP PROFIT AND LOSS ACCOUNT
for the nine months ended December 31, 2002

| (unaudited) | Notes | Before goodwill amortisation and exceptional items GBPm | Goodwill amortisation and exceptional items (note 6) GBPm | Total GBPm |
|----------------|-------|--|---|---------------|
| Group turnover | 2, 4 | 13,949 | - | 13,949 |
| Other | | | | |

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| | | | | |
|---|---|----------|-------|----------|
| operating income | | 148 | - | 148 |
| Operating costs | 3 | (12,040) | (214) | (12,254) |
| | | ----- | ----- | ----- |
| Group operating profit (loss) | 2 | 2,057 | (214) | 1,843 |
| Group's share of operating profits of associates and joint ventures | 4 | 162 | 150 | 312 |
| | | ----- | ----- | ----- |
| Total operating profit (loss) | | 2,219 | (64) | 2,155 |
| Profit on sale of fixed asset investments and group undertakings | | - | 165 | 165 |
| Profit on sale of property fixed assets | | 7 | - | 7 |
| Amounts written off investments | | (7) | - | (7) |
| Net interest payable | 7 | (880) | - | (880) |
| | | ----- | ----- | ----- |
| Profit before taxation | | 1,339 | 101 | 1,440 |
| Taxation | | (439) | 51 | (388) |
| | | ----- | ----- | ----- |
| Profit after taxation | | 900 | 152 | 1,052 |
| Minority interests | | (10) | (7) | (17) |
| | | ----- | ----- | ----- |
| Profit attributable to shareholders | | 890 | 145 | 1,035 |
| | | ===== | ===== | |
| Dividends | | | | (194) |
| | | | | ----- |
| Retained profit for the period | | | | 841 |
| | | | | ===== |
| Earnings per share | 8 | | | |
| - basic | | 10.3p | | 12.0p |
| | | ===== | | ===== |

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- diluted

10.3p
=====

12.0p
=====

GROUP CASH FLOW STATEMENT

for the three months and nine months ended December 31, 2003

| (unaudited) | Third quarter ended December 31 | | Nine months ended December 31 | |
|---|------------------------------------|--------------|----------------------------------|--------------|
| | 2003 GBPm | 2002 GBPm | 2003 GBPm | 2002 GBPm |
| Net cash inflow from operating activities* (note 9) | 1,038 | 1,041 | 3,821 | 3,776 |
| Dividends from associates and joint ventures | 2 | 3 | 3 | 4 |
| Net cash outflow for returns on investments and servicing of finance | (333) | (372) | (792) | (978) |
| Taxation paid | (176) | (130) | (185) | (276) |
| Purchase of tangible fixed assets | (680) | (635) | (1,882) | (1,904) |
| Net sale of fixed asset investments | 66 | 87 | 127 | 88 |
| Sale of tangible fixed assets | 15 | 25 | 43 | 67 |
| Net cash outflow for capital expenditure and financial investments | (599) | (523) | (1,712) | (1,749) |
| Free cash (outflow) inflow before acquisitions, disposals and dividends | (68) | 19 | 1,135 | 777 |
| Acquisitions | (23) | (12) | (28) | (139) |
| Disposals | - | 210 | 1 | 338 |
| Net cash (outflow) inflow for acquisitions and disposals | (23) | 198 | (27) | 199 |
| Equity dividends paid | - | - | (368) | (173) |
| Cash (outflow) inflow before use of liquid resources and financing | (91) | 217 | 740 | 803 |

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| | | | | |
|---|-------|-------|---------|---------|
| Management of liquid resources | (235) | (467) | 266 | 650 |
| Issue of ordinary share capital | - | - | - | 42 |
| Repurchase of ordinary share capital | (58) | - | (58) | - |
| New loans | 1,320 | - | 1,320 | 20 |
| Repayment of loans | (884) | (46) | (2,035) | (1,513) |
| Net movement on short-term borrowings | - | - | - | (64) |
| Net cash inflow (outflow) from financing | 378 | (46) | (773) | (1,515) |
| Increase (decrease) in cash | 52 | (296) | 233 | (62) |
| Increase (decrease) in net debt from cash flows (note 10) | 149 | (217) | (682) | (845) |
| *Net of deficiency and special pension contributions | 362 | 329 | 362 | 329 |

GROUP BALANCE SHEET
at December 31, 2003

| | December 31 | | March 31 |
|--|-------------|--------|----------|
| | 2003 | 2002 | 2003 |
| | (unaudited) | | |
| | GBPm | GBPm | GBPm |
| Fixed assets | | | |
| Intangible assets | 184 | 219 | 218 |
| Tangible assets | 15,460 | 15,829 | 15,888 |
| Investments | 402 | 754 | 555 |
| | 16,046 | 16,802 | 16,661 |
| Current assets | | | |
| Stocks | 95 | 92 | 82 |
| Debtors | 5,301 | 5,473 | 5,043 |
| Investments | 6,236 | 3,951 | 6,340 |
| Cash at bank and in hand | 124 | 88 | 91 |
| | 11,756 | 9,604 | 11,556 |
| Creditors: amounts falling due within one year | | | |
| Loans and other borrowings | 2,372 | 2,326 | 2,548 |
| Other creditors | 6,852 | 6,484 | 7,132 |

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| | | | |
|---|--------|--------|--------|
| | 9,224 | 8,810 | 9,680 |
| Net current assets | 2,532 | 794 | 1,876 |
| Total assets less current liabilities | 18,578 | 17,596 | 18,537 |
| Creditors: amounts falling due after more than one year | | | |
| Loans and other borrowings | 12,783 | 14,630 | 13,456 |
| Provisions for liabilities and charges (note 11) | 2,325 | 2,507 | 2,376 |
| Minority interests | 50 | 70 | 63 |
| Capital and reserves (note 12) | | | |
| Called up share capital | 432 | 434 | 434 |
| Reserves | 2,988 | (45) | 2,208 |
| Total equity shareholders' funds | 3,420 | 389 | 2,642 |
| | 18,578 | 17,596 | 18,537 |

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, 2003. Figures for the year ended March 31, 2003 are extracts from the group accounts for that year.

The group accounts for the year ended March 31, 2003, 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, have been delivered to the Registrar of Companies.

2 Results of businesses

The tables below show the results of BT's lines of business. There is extensive trading between many of the business units and profitability is dependent on the transfer price levels. These intra-group trading arrangements are subject to review and have changed in certain instances. Comparative figures have been restated for these changes but there is no impact at a group level. The eliminations are intra-group eliminations.

With effect from January 1, 2003 the operations of BT Openworld were transferred under the management control of BT Retail. The comparative figures have been restated to report BT Openworld as part of BT Retail for all the periods under review.

(a) Operating results

Group

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| | External turnover GBPm | Internal turnover GBPm | Group turnover GBPm | operating profit (loss) (iii) GBPm | EBITDA (iii) GBPm |
|------------------------|------------------------------|------------------------------|---------------------------|---|-------------------------|
| Third quarter ended | | | | | |
| December 31, 2003 | | | | | |
| BT Retail | 3,120 | 213 | 3,333 | 366 | 404 |
| BT Wholesale | 858 | 1,824 | 2,682 | 421 | 902 |
| BT Global | | | | | |
| Services | 591 | 816 | 1,407 | (22) | 133 |
| Other | 9 | - | 9 | (22) | 35 |
| Intra-group items (ii) | - | (2,853) | (2,853) | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 4,578 | - | 4,578 | 743 | 1,474 |
| | ===== | ===== | ===== | ===== | ===== |
| Third quarter ended | | | | | |
| December 31, 2002 (i) | | | | | |
| BT Retail | 3,265 | 256 | 3,521 | 402 | 448 |
| BT Wholesale | 889 | 1,962 | 2,851 | 485 | 973 |
| BT Global | | | | | |
| Services | 537 | 759 | 1,296 | (84) | 71 |
| Other | 10 | 1 | 11 | (45) | 21 |
| Intra-group items (ii) | - | (2,978) | (2,978) | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 4,701 | - | 4,701 | 758 | 1,513 |
| | ===== | ===== | ===== | ===== | ===== |
| Nine months ended | | | | | |
| December 31, 2003 | | | | | |
| BT Retail | 9,387 | 627 | 10,014 | 1,124 | 1,250 |
| BT Wholesale | 2,581 | 5,570 | 8,151 | 1,284 | 2,712 |
| BT Global | | | | | |
| Services | 1,745 | 2,388 | 4,133 | (112) | 345 |
| Other | 19 | 1 | 20 | (75) | 97 |
| Intra-group items (ii) | - | (8,586) | (8,586) | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 13,732 | - | 13,732 | 2,221 | 4,404 |
| | ===== | ===== | ===== | ===== | ===== |
| Nine months ended | | | | | |
| December 31, 2002 (i) | | | | | |
| BT Retail | 9,665 | 663 | 10,328 | 1,159 | 1,312 |
| BT Wholesale | 2,625 | 5,807 | 8,432 | 1,287 | 2,725 |
| BT Global | | | | | |
| Services | 1,623 | 2,268 | 3,891 | (296) | 149 |
| Other | 36 | 1 | 37 | (93) | 108 |
| Intra-group items (ii) | - | (8,739) | (8,739) | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 13,949 | - | 13,949 | 2,057 | 4,294 |
| | ----- | ----- | ----- | ----- | ----- |

(i) The results of the lines of business for the quarter ended December 31, 2002 and the nine months ended December 31, 2002 have been restated to reflect changes to intra-group trading arrangements.

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

(iii) Before goodwill amortisation and exceptional items.

BT Global Services analysis

| | Third quarter ended December 31 | | | | Nine months ended December 31 | |
|--------------------------|------------------------------------|-------|--------|---------|----------------------------------|-------|
| | 2003 | 2002 | Better | (worse) | 2003 | 2002 |
| | GBPm | GBPm | GBPm | % | GBPm | GBPm |
| Group turnover | | | | | | |
| Solutions | 685 | 602 | 83 | 14 | 1,980 | 1,724 |
| Syntegra | 162 | 146 | 16 | 11 | 468 | 431 |
| Global Products | 468 | 429 | 39 | 9 | 1,344 | 1,230 |
| Global Carrier | 244 | 223 | 21 | 9 | 710 | 706 |
| Other and eliminations | (152) | (104) | (48) | (46) | (369) | (200) |
| | ----- | ----- | | | ----- | ----- |
| | 1,407 | 1,296 | 111 | 9 | 4,133 | 3,891 |
| | ===== | ===== | | | ===== | ===== |
| EBITDA | | | | | | |
| Solutions | 80 | 78 | 2 | 3 | 218 | 213 |
| Syntegra | 11 | 11 | - | - | 20 | 19 |
| Global Products | 29 | (10) | 39 | n/m | 77 | (60) |
| Global Carrier | 40 | 27 | 13 | 48 | 112 | 99 |
| Other (i) | (27) | (35) | 8 | 23 | (82) | (122) |
| | ----- | ----- | | | ----- | ----- |
| | 133 | 71 | 62 | 87 | 345 | 149 |
| | ===== | ===== | | | ===== | ===== |
| Operating profit (loss) | | | | | | |
| (ii) | | | | | | |
| Solutions | 61 | 60 | 1 | 2 | 161 | 159 |
| Syntegra | 9 | 9 | - | - | 14 | 12 |
| Global Products | (68) | (108) | 40 | 37 | (212) | (347) |
| Global Carrier | 18 | 5 | 13 | 260 | 45 | 33 |
| Other (i) | (42) | (50) | 8 | 16 | (120) | (153) |
| | ----- | ----- | | | ----- | ----- |
| | (22) | (84) | 62 | 74 | (112) | (296) |
| | ===== | ===== | | | ===== | ===== |
| Capital expenditure | 115 | 102 | (13) | (13) | 319 | 293 |
| | ===== | ===== | | | ===== | ===== |
| Operating free cash flow | 18 | (31) | 49 | n/m | 26 | (144) |
| | ===== | ===== | | | ===== | ===== |

(i) Other is after charging leaver costs of GBP6m in the third quarter (GBP7m last year) and GBP19m in the nine months ended December 31, 2003 (GBP46m last year).

(ii) Before goodwill amortisation.

2 Results of businesses continued

(b) Group turnover analysis

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| | Third quarter ended December 31 | | | Nine months ended December 31 | | |
|-------------------|------------------------------------|-------|-------------------|----------------------------------|--------|-------------------|
| | 2003 | 2002 | Better (worse) | 2003 | 2002 | Better (worse) |
| | GBPm | GBPm | % | GBPm | GBPm | % |
| Traditional | 3,740 | 4,059 | (8) | 11,423 | 12,118 | (6) |
| New wave | 838 | 642 | 31 | 2,309 | 1,831 | 26 |
| | ----- | ----- | | ----- | ----- | |
| | 4,578 | 4,701 | (3) | 13,732 | 13,949 | (2) |
| | ===== | ===== | | ===== | ===== | |
| Consumer | 1,505 | 1,545 | (3) | 4,500 | 4,558 | (1) |
| Business | 636 | 677 | (6) | 1,940 | 2,050 | (5) |
| Major Corporate | 1,414 | 1,445 | (2) | 4,257 | 4,260 | - |
| Wholesale/Carrier | 1,014 | 1,024 | (1) | 3,016 | 3,045 | (1) |
| Other | 9 | 10 | (10) | 19 | 36 | (47) |
| | ----- | ----- | | ----- | ----- | |
| | 4,578 | 4,701 | (3) | 13,732 | 13,949 | (2) |
| | ----- | ----- | | ----- | ----- | |

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

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

| | Third quarter ended December 31 | | Nine months ended December 31 | |
|--------------------------|------------------------------------|------|----------------------------------|-------|
| | 2003 | 2002 | 2003 | 2002 |
| | GBPm | GBPm | GBPm | GBPm |
| BT Retail | 32 | 25 | 72 | 69 |
| BT Wholesale | | | | |
| Access | 270 | 222 | 717 | 636 |
| Switch | 37 | 52 | 70 | 134 |
| Transmission | 49 | 55 | 149 | 179 |
| Products/systems support | 133 | 101 | 329 | 225 |
| | --- | --- | ----- | ----- |

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| | | | | |
|--------------------------------------|-----|-----|-------|-------|
| | 489 | 430 | 1,265 | 1,174 |
| BT Global Services | | | | |
| Syntegra and Solutions | 19 | 12 | 80 | 36 |
| UK Networks | 33 | 25 | 92 | 84 |
| Other | 63 | 65 | 147 | 173 |
| | --- | --- | --- | --- |
| Other (including fleet and property) | 115 | 102 | 319 | 293 |
| | 63 | 56 | 173 | 185 |
| | --- | --- | --- | --- |
| Total | 699 | 613 | 1,829 | 1,721 |
| | --- | --- | --- | --- |

2 Results of businesses continued

(d) Net operating assets (liabilities)

| | December 31 2003 GBPm | March 31 2003 GBPm |
|--------------------|-----------------------------|--------------------------|
| BT Retail | 65 | (430) |
| BT Wholesale | 11,965 | 12,041 |
| BT Global Services | 1,467 | 1,912 |
| Other | 383 | 217 |
| | ----- | ----- |
| Total | 13,880 | 13,740 |
| | ----- | ----- |

Note: Net operating assets (liabilities) comprise tangible and intangible fixed assets, stocks, debtors less creditors (excluding loans and other borrowings) and provisions for liabilities and charges (excluding deferred tax).

3 Operating costs

| | Third quarter ended December 31 | | Nine months ended December 31 | |
|--|------------------------------------|--------------|----------------------------------|--------------|
| | 2003 GBPm | 2002 GBPm | 2003 GBPm | 2002 GBPm |
| Net staff costs before leaver costs | 865 | 831 | 2,658 | 2,560 |
| Leaver costs | 26 | 12 | 53 | 205 |
| | ----- | ----- | ----- | ----- |
| Net staff costs | 891 | 843 | 2,711 | 2,765 |
| Depreciation | 731 | 754 | 2,181 | 2,234 |
| Payments to telecommunication operators | 905 | 973 | 2,928 | 2,952 |
| Other operating costs | 1,345 | 1,425 | 3,824 | 4,089 |
| | ----- | ----- | ----- | ----- |
| Total before goodwill amortisation and exceptional items | 3,872 | 3,995 | 11,644 | 12,040 |

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| | | | | |
|-----------------------|-------|-------|--------|--------|
| Goodwill amortisation | 3 | 5 | 9 | 16 |
| Exceptional items | - | 198 | - | 198 |
| | ----- | ----- | ----- | ----- |
| Total | 3,875 | 4,198 | 11,653 | 12,254 |
| | ----- | ----- | ----- | ----- |

4 Group's share of associates and joint ventures

| | Third quarter | | Nine months | |
|--|-------------------|------|-------------------|-------|
| | ended December 31 | | ended December 31 | |
| | 2003 | 2002 | 2003 | 2002 |
| | GBPm | GBPm | GBPm | GBPm |
| Share of associates and joint ventures turnover | 98 | 423 | 304 | 1,267 |
| | == | === | === | ===== |
| Share of operating profits (losses) before goodwill amortisation and exceptional items | 5 | 47 | (2) | 162 |
| Impairment of associates and joint ventures and release of related costs | - | 150 | - | 150 |
| | -- | --- | --- | ----- |
| Total share of operating profits (losses) of associates and joint ventures | 5 | 197 | (2) | 312 |
| | -- | --- | --- | ----- |

5 Profit on sale of fixed asset investments and group undertakings During the quarter the group's principal disposal was its 7.8% interest in Inmarsat Ventures plc for total cash consideration of \$118m (GBP67m) realising a profit on disposal of GBP32m.

6 Exceptional items and goodwill amortisation

| | Third quarter | | Nine months | |
|--|-------------------|-------|-------------------|-------|
| | ended December 31 | | ended December 31 | |
| | 2003 | 2002 | 2003 | 2002 |
| | GBPm | GBPm | GBPm | GBPm |
| Profit on sale of fixed asset investments and group undertakings | 33 | 99 | 32 | 165 |
| Property rationalisation costs | - | (198) | - | (198) |
| Impairment of other investments and release for related costs | - | 150 | - | 150 |
| Net interest payable | (37) | - | (55) | - |
| Goodwill amortisation | (3) | (5) | (9) | (16) |
| | -- | --- | -- | --- |
| Net (charge) credit before tax and | | | | |

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| | | | | |
|--------------------|-----|-----|------|-----|
| minority interests | (7) | 46 | (32) | 101 |
| | -- | --- | -- | --- |

7 Net interest payable

| | Third quarter ended December 31 | | Nine months ended December 31 | |
|-------------------------------|------------------------------------|--------------|----------------------------------|--------------|
| | 2003 GBPm | 2002 GBPm | 2003 GBPm | 2002 GBPm |
| Group | 315 | 322 | 955 | 1,000 |
| Joint ventures and associates | 4 | 5 | 14 | 21 |
| | --- | --- | --- | --- |
| Total interest payable | 319 | 327 | 969 | 1,021 |
| Interest receivable | (59) | (42) | (250) | (141) |
| | --- | --- | --- | --- |
| Net interest payable | 260 | 285 | 719 | 880 |
| | === | === | === | ===== |
| Analysed: | | | | |
| Before exceptional items | 223 | 285 | 664 | 880 |
| Exceptional items | 37 | - | 55 | - |
| | --- | --- | --- | --- |
| Total | 260 | 285 | 719 | 880 |
| | --- | --- | --- | --- |

8 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. 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 | |
|---------|------------------------------------|-------|----------------------------------|-------|
| | 2003 | 2002 | 2003 | 2002 |
| | million of shares | | million of shares | |
| Basic | 8,629 | 8,623 | 8,629 | 8,614 |
| Diluted | 8,682 | 8,656 | 8,686 | 8,653 |

9 Reconciliation of operating profit to operating cash flow

| | Third quarter ended December 31 | | Nine months ended December 31 | |
|------------------------|------------------------------------|--------------|----------------------------------|--------------|
| | 2003 GBPm | 2002 GBPm | 2003 GBPm | 2002 GBPm |
| Group operating profit | 740 | 555 | 2,212 | 1,843 |

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| | | | | |
|---|-------|-------|-------|-------|
| Depreciation and amortisation | 734 | 760 | 2,192 | 2,253 |
| Changes in working capital | (79) | (147) | (290) | (313) |
| Provision movements, pensions and other | (357) | (127) | (293) | (7) |
| | ----- | ----- | ----- | ----- |
| Net cash inflow from operating activities | 1,038 | 1,041 | 3,821 | 3,776 |
| | ----- | ----- | ----- | ----- |

10 Net debt

(a) Analysis

| | At December 31 | | At March 31 |
|--|----------------|---------|-------------|
| | 2003 | 2002 | 2003 |
| | GBPm | GBPm | GBPm |
| Long-term loans and other borrowings falling due after more than one year | 12,783 | 14,630 | 13,456 |
| Short-term borrowings and long-term loans and other borrowings falling due within one year | 2,372 | 2,326 | 2,548 |
| | ----- | ----- | ----- |
| Total debt | 15,155 | 16,956 | 16,004 |
| Short-term investments | (6,236) | (3,951) | (6,340) |
| Cash at bank | (124) | (88) | (91) |
| | ----- | ----- | ----- |
| Net debt at end of period | 8,795 | 12,917 | 9,573 |
| | ----- | ----- | ----- |

10 Net debt continued

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

| | Third quarter | | Nine months | |
|---|-------------------|--------|-------------------|--------|
| | ended December 31 | | ended December 31 | |
| | 2003 | 2002 | 2003 | 2002 |
| | GBPm | GBPm | GBPm | GBPm |
| Net debt at beginning of period | 8,768 | 13,112 | 9,573 | 13,701 |
| Increase (decrease) in net debt resulting from cash flows | 149 | (217) | (682) | (845) |
| Net debt assumed or issued on acquisitions | - | - | - | (13) |
| Currency and other movements | (13) | 15 | (11) | 32 |
| Other non-cash movements | (109) | 7 | (85) | 42 |
| | ----- | ----- | ----- | ----- |
| Net debt at end of period | 8,795 | 12,917 | 8,795 | 12,917 |
| | ----- | ----- | ----- | ----- |

11 Provisions for liabilities and charges

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| | At December 31 | | At March 31 |
|------------------------|----------------|-------|-------------|
| | 2003 | 2002 | 2003 |
| | GBPm | GBPm | GBPm |
| Deferred taxation | 2,017 | 2,146 | 2,017 |
| Pension provisions (a) | 32 | 33 | 33 |
| Other provisions | 276 | 328 | 326 |
| | ----- | ----- | ----- |
| | 2,325 | 2,507 | 2,376 |
| | ----- | ----- | ----- |

(a) The pension prepayment relating to the BT Pension Scheme of GBP787m at December 31, 2003 (GBP560m last year) is included in debtors and falls due after more than one year.

12 Share capital and reserves

| | Share capital | Reserves | Total |
|--|---------------|----------|-------|
| | GBPm | GBPm | GBPm |
| Balances at April 1, 2003 | 434 | 2,208 | 2,642 |
| Repurchase of share capital | (2) | (56) | (58) |
| Profit for the nine months ended December 31, 2003 | - | 1,114 | 1,114 |
| Dividend | - | (278) | (278) |
| | ---- | ---- | ---- |
| Balances at December 31, 2003 | 432 | 2,988 | 3,420 |
| | ---- | ----- | ----- |

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

| | Third quarter | | Nine months | |
|---|-------------------|-------|-------------------|-------|
| | ended December 31 | | ended December 31 | |
| | 2003 | 2002 | 2003 | 2002 |
| | GBPm | GBPm | GBPm | GBPm |
| Group operating profit before exceptional items | 740 | 753 | 2,212 | 2,041 |
| Depreciation | 731 | 755 | 2,183 | 2,237 |
| Amortisation | 3 | 5 | 9 | 16 |
| | ----- | ----- | ----- | ----- |
| EBITDA before exceptional items | 1,474 | 1,513 | 4,404 | 4,294 |
| | ----- | ----- | ----- | ----- |

14 United States Generally Accepted Accounting Principles

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

| | Third quarter ended December 31 | | Nine months ended December 31 | |
|--|------------------------------------|------|----------------------------------|-------|
| | 2003 | 2002 | 2003 | 2002 |
| Net income attributable to shareholders (GBPm) including exceptional items | 132 | 422 | 510 | 1,147 |
| Earnings per ADS (GBP) | | | | |
| - basic | 0.15 | 0.49 | 0.59 | 1.33 |
| - diluted | 0.15 | 0.49 | 0.59 | 1.33 |

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 GBP2,484m deficit at December 31, 2003 (December 31, 2002 - GBP3,601m, March 31, 2003 - GBP2,258m).

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: cash flow, earnings per share and customer satisfaction targets; expectations regarding broadband growth, provision of new technology and services with greater capabilities and lower costs, and revenues from new wave products and services; the possible or assumed future results of operations of BT and/or its lines of business; expectations regarding revenue growth, debt reduction and growing shareholder value by investing for the future and more effectively managing the balance sheet; and cost efficiencies and delivery of sustainable cash savings.

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 and its lines of business; future regulatory actions and conditions in BT's operating areas, including competition from others in the UK and other international communications markets; 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; prolonged

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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; the timing of entry and profitability of BT and its lines of business in certain communication markets; significant changes in market shares for BT and its principal products and services; to the extent that BT chooses to sell assets or minority interests in its subsidiaries, prevailing market levels for such sales; 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.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BT Group PLC
(Registrant)

By: /s/ Patricia Day

Patricia Day, Assistant Secretary. Head of Shareholder Services

Date 12 February, 2004