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BT GROUP PLC  
Form 6-K  
December 05, 2007

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

Report of Form 6-K dated December 5, 2007

British Telecommunications 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 of 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  
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Enclosure: British Telecommunications plc - Half Year Ended September 30, 2007 - Interim Results Statement

BRITISH TELECOMMUNICATIONS PLC

HALF YEAR ENDED SEPTEMBER 30, 2007

INTERIM RESULTS STATEMENT

Introduction

The commentary focuses on the results before specific items and leaver costs, each a non GAAP measure. 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 during the period under review. Specific items are defined and analysed in note 4 on page 20. Leaver costs are analysed in note 3 (b) on page 19.

The income statement, cash flow statement and balance sheet are provided on pages 12 to 15. Earnings before interest, taxation, depreciation and amortisation (EBITDA) before specific items, free cash flow and net debt are non

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GAAP measures since they are not defined in IFRS but they are key indicators used by management in order to assess operational performance. A reconciliation of EBITDA before specific items to group operating profit is provided on page 23. Definitions of free cash flow and net debt are provided on pages 21 and 22. References to "Group" or "group" are to the Company and its subsidiaries.

### Revenue

Revenue increased by 3 per cent to GBP10,128 million in the six months ended September 30, 2007 (2006 - GBP9,805 million). The strong growth in new wave revenue continued and, at GBP3,729 million, was 10 per cent higher compared to the prior year, and represented 37 per cent of revenue (2006 - 34 per cent). New wave revenue is mainly generated from networked IT services, broadband and mobility. The increase in new wave revenue was driven by growth in networked IT services, which increased 10 per cent to GBP2,181 million, and broadband which increased 15 per cent to GBP1,083 million.

Traditional revenue remained broadly flat at GBP6,399 million (2006 - GBP6,428 million), reflecting the group's robust defence of the traditional business and the success of the strategy to slow the rate of decline in traditional revenue.

The table below analyses revenue by customer segment.

|                             | Half year ended September 30 |       |
|-----------------------------|------------------------------|-------|
| Revenue by customer segment | 2007                         | 2006  |
|                             | GBPm                         | GBPm  |
| Major corporate             | 3,615                        | 3,402 |
| Business                    | 1,213                        | 1,181 |
| Consumer                    | 2,520                        | 2,509 |
| Wholesale/Carrier           | 2,768                        | 2,703 |
| Other                       | 12                           | 10    |
|                             | 10,128                       | 9,805 |
|                             | =====                        | ===== |

Major corporate (UK and international) revenue grew by 6 per cent driven by growth in new wave revenue. Migration from traditional voice only services to networked IT services and broadband continued with new wave revenue at GBP2,211 million now representing 61 per cent of all major corporate revenue (2006 - 59 per cent).

Revenue from Business (smaller and medium sized enterprise) customers grew 3 per cent. New wave revenue increased by 14 per cent to GBP370 million, reflecting the continued focus on innovative pricing plans and propositions that deliver value to our customer base by bringing together IT, broadband and communication services.

Consumer revenue was broadly flat, at GBP2,520 million (2006 - GBP2,509 million). New wave revenue increased by 21 per cent to GBP479 million, driven primarily by growth in broadband. Residential broadband connections increased by 834,000 year on year to 4,074,000.

The 12 month rolling average revenue per consumer household increased by GBP9 in the half year to GBP271. This is a reflection of our customers' desire to use BT as their supplier of choice in the communications and IT market, with an increasing number taking multiple services from BT. Increased penetration of broadband and the growth of value added propositions have more than offset the lower call revenues.

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Wholesale (UK and Global Carrier) revenue increased by 2 per cent driven by wholesale line rental (WLR) and local loop unbundling (LLU). Wholesale new wave revenue increased by 2 per cent to GBP669 million, mainly driven by broadband. New wave revenue accounts for 24 per cent of wholesale revenue.

In the UK, BT had 11.7 million wholesale broadband connections (DSL and LLU) at September 30, 2007, including 3.2 million local loop unbundled lines, an increase of 2.4 million connections year on year.

### Operating costs

Group operating costs are analysed in note 3 on page 19. Group operating costs before specific items increased by 3 per cent year on year to GBP8,842 million. Staff costs before leaver costs increased by 3 per cent to GBP2,596 million, due to pay inflation as well as the cost of additional staff needed to support networked IT services contracts, increased network and 21CN activities and service improvements, the impact of which has been largely offset by savings from the group's efficiency programmes. We remain focused on financial discipline and our cost efficiency programmes achieved savings of GBP275 million in the half year which has enabled us to invest in further growth of our new wave activities. Leaver costs before specific items were GBP51 million in the half year (2006 - GBP57 million). Payments to other telecommunication operators increased by 4 per cent to GBP2,116 million, mainly reflecting the impact of higher volumes. Other operating costs before specific items of GBP3,056 million increased by GBP175 million mainly due to increased cost of sales from growth in networked IT and other new wave services and increased levels of network and 21CN activities, which were partly offset by savings from our efficiency programmes. Depreciation and amortisation was broadly flat year on year, at GBP1,402 million (2006 - GBP1,406 million).

### Specific items

Specific items are defined and analysed in note 4 on page 20. There was a total net operating charge before tax of GBP240 million (2006 - GBP23 million) including restructuring costs of GBP216 million (2006 - GBPnil) and a charge of GBP24 million (2006 - GBPnil) as a result of a review of circuit inventory and other working capital balances. Restructuring costs mainly comprised manager leaver, transformation programme and property exit costs. Refer to page 7 for further details on the business transformation. The net operating charge was partly offset by a GBP9 million gain realised on the disposals of associates (2006 - GBP20 million).

There was a total tax credit of GBP226 million (2006 - GBP1 million) relating to the tax effect of other specific items of GBP72 million (2006 - GBP1 million) and a tax credit of GBP154 million (2006 - GBPnil) for the re-measurement of deferred tax balances for the change in the UK statutory corporation tax rate to 28 per cent, which becomes effective in 2008/9.

### Operating profit

Group operating profit before specific items increased by 6 per cent to GBP1,426 million. Group operating profit margin increased to 14.1 per cent compared to 13.7 per cent in the prior year.

### Net finance income

Net finance income was GBP402 million, an increase of GBP32 million against last year. This includes net finance income associated with the group's defined benefit pension scheme which was flat year on year at GBP210 million. The

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increase in net finance income principally reflects an increase in finance income arising from higher interest rates on variable rate lending with other BT group companies. This was partly offset by an increase in finance costs reflecting higher net debt in the period, higher interest rates on variable rate borrowings and fair value movements on hedges that do not qualify for hedge accounting under IAS 39.

### Taxation

The effective tax rate on the profit before specific items was 26.3 per cent (2006 - 26.2 per cent) compared to the UK statutory corporation tax rate of 30 per cent, reflecting the continued focus on tax efficiency within the group.

### Cash flow and net debt

Net cash inflow from operating activities in the half year amounted to GBP2,110 million compared to GBP2,598 million last year. This was reflected in free cash flow which was a net inflow of GBP251 million in the half year compared to GBP726 million last year. The lower free cash flow is primarily the result of the cash outflow relating to business transformation programme payments of GBP101 million (2006 - GBPnil) together with the higher net working capital outflow of GBP696 million (2006 - GBP153 million) most of which is expected to reverse by the end of the financial year. Pension deficiency payments of GBP320 million were made, being the final payment until the next triennial funding valuation at December 31, 2008. Free cash flow also includes the final receipt of GBP504 million in relation to the settlement of open tax years up to 2004/5 agreed with HMRC last year. The cash outflow for the purchase of property, plant and equipment and software amounted to GBP1,644 million, which is broadly flat year on year.

The net cash outflow on acquisition of subsidiaries, principally Comsat International Inc, in the half year was amounted to GBP233 million, compared to GBP45 million last year. During the half year the group issued debt of GBP3,593 million consisting of long term listed bonds of GBP1,501 million, in aggregate, maturing in 2014, 2017 and 2037, bank borrowing of GBP300 million maturing in 2012 and short term borrowings of GBP1,792 million (including net commercial paper issuances of GBP424 million). Debt maturities in the half year amounted of GBP748 million. Equity dividends paid in the half year were GBP2,300 million compared to GBP1,608 million in the prior period.

Net debt was GBP10,565 million at September 30, 2007 compared to GBP8,210 million at March 31, 2007. This increase includes the effect of the dividend and pension deficiency payments, partly offset by cash receipts from HMRC in relation to the settlement of open tax years. Free cash flow and net debt are defined and reconciled in notes 7 (b) and 8 (b) on pages 21 and 22.

### Contractual obligations and commitments

The following table sets out the group's contractual obligations and commitments as they fall due for payment, as at September 30, 2007.

| Total     | Payments due by period |           |           |                   |
|-----------|------------------------|-----------|-----------|-------------------|
|           | Less than 1 year       | 1-3 years | 3-5 years | More than 5 years |
| GBPm      | GBPm                   | GBPm      | GBPm      | GBPm              |
| Loans and |                        |           |           |                   |

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|  |        |       |       |       |        |
|--|--------|-------|-------|-------|--------|
| other                                  |        |       |       |       |        |
| borrowings                             | 11,659 | 3,951 | 478   | 2,506 | 4,724  |
| Finance lease obligations              | 574    | 302   | 30    | 31    | 211    |
| Operating lease obligations            | 9,414  | 464   | 868   | 817   | 7,265  |
| Pension deficiency obligations         | 1,960  | -     | 280   | 560   | 1,120  |
| Capital commitments                    | 1,028  | 813   | 156   | 38    | 21     |
| Deferred consideration on acquisitions | 64     | 44    | 20    | -     | -      |
|  | -----  | ----- | ----- | ----- | -----  |
| Total                                  | 24,699 | 5,574 | 1,832 | 3,952 | 13,341 |
|  | =====  | ===== | ===== | ===== | =====  |

At September 30, 2007 the group had cash, cash equivalents and current asset investments of GBP1,966 million. At that date, GBP3,944 million of debt fell due for repayment in the 12 months ended September 30, 2008. The group had unused short term bank facilities, amounting to approximately GBP1,735 million at September 30, 2007.

### Acquisitions

The total amount invested in acquisitions in the half year ended September 30, 2007, net of cash acquired, was GBP233 million, primarily relating to the acquisition of Comsat International Inc. Goodwill arising on the acquisitions made in the half year was GBP195 million.

The acquisition of Comsat International Inc was completed in June 2007, for a total consideration of GBP130 million. Net of deferred consideration and cash acquired, the net cash outflow was GBP119 million. The provisional fair value of Comsat International Inc's net assets at the date of acquisition was GBP49 million giving rise to provisional goodwill of GBP81 million.

Other acquisitions made in the half year included primarily i2i Enterprise Private Limited, Basilica Group Limited, Brightview plc and Lynx Technologies. The total consideration in respect of these acquisitions was GBP126 million (including GBP40 million of deferred contingent consideration) and goodwill of GBP114 million has been recognised. Net of deferred consideration and cash acquired, the net cash outflow was GBP84 million

The total amount invested in the half year ended September 30, 2006 was GBP45 million, mainly due to the acquisitions of dabs.com plc and I3IT Limited.

### Balance sheet

Net assets at September 30, 2007 amounted to GBP22,740 million, compared to GBP22,364 million at March 31, 2007. The increase of GBP376 million was mainly due to the profit for the period of GBP1,336 million and actuarial gains of GBP2,065 million, offset by dividends paid of GBP2,300 million and tax of GBP714 million on those items taken directly to equity, including actuarial gains.

The group's non current assets totalled GBP21,179 million at September 30, 2007,

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of which GBP15,157 million related to property, plant and equipment, principally forming the UK fixed network. At March 31, 2007, non current assets were GBP18,559 million of which GBP14,997 million related to property, plant and equipment.

### Pensions

The IAS 19 net pension asset at September 30, 2007 was a surplus of GBP1.5 billion, net of tax (GBP2.1 billion gross of tax), compared with a deficit of GBP0.3 billion at March 31, 2007 (GBP0.4 billion gross of tax), an improvement of GBP1.8 billion, net of tax (GBP2.5 billion gross of tax). The market value of pension scheme assets was GBP39.7 billion at September 30, 2007 (GBP38.3 billion at March 31, 2007).

The improvement in the position compared to March 31, 2007 is the result of a combination of factors, including the payment of deficiency contributions of GBP320 million, increases to the market value of scheme investments and an increase to the AA bond rate used to determine the present value of scheme liabilities.

### Business transformation

During the period BT announced a move to a new organisation structure that will help deliver faster, more resilient and cost effective services to customers wherever they are. The move will accelerate BT's transformation to a networked IT services company, delivering software driven services over broadband and also accelerate the achievement of cost savings.

On October 1, 2007, BT moved to its new organisational structure with the launch of BT Design and BT Operate. BT Design is responsible for the design and development of the platforms, systems and processes which support our services; BT Operate is responsible for their deployment and operation.

It is estimated that the reorganisation and transformation activities will result in restructuring costs of around GBP450 million, which is expected to generate a payback within 2 to 3 years. GBP216 million has been incurred to September 30, 2007.

### Post balance sheet events

On November 22, 2007 the group issued EUR1 billion (GBP716 million) of debt maturing in 2013. On October 19, 2007 the group paid an interim dividend of GBP425 million.

## LINE OF BUSINESS RESULTS

### BT Global Services

|                                      | Half year ended September 30 |       |
|--------------------------------------|------------------------------|-------|
|                                      | 2007                         | 2006  |
|                                      | GBPm                         | GBPm  |
| Revenue                              | 4,536                        | 4,312 |
| Gross profit                         | 1,294                        | 1,266 |
| SG&A before leaver costs             | 815                          | 809   |
| EBITDA before leaver costs           | 479                          | 457   |
| Depreciation and amortisation        | 339                          | 305   |
| Operating profit before leaver costs | 140                          | 152   |

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Capital expenditure 367 325

BT Global Services revenue grew by 5 per cent year on year to GBP4,536 million. New wave revenue rose by GBP324 million to GBP3,624 million, an increase of 10 per cent, driven primarily by networked IT services contracts. Traditional UK revenue fell by 10 per cent to GBP912 million. External revenue increased by 15 per cent outside of the UK.

Total orders in the half year amounted to GBP3.3 billion, bringing the value of total orders achieved over the last twelve months to GBP9.2 billion. Networked IT services contract orders were GBP1.8 billion in the half year, taking contract orders for the last twelve months to GBP5.3 billion. An additional 230 new corporate customers outside the UK signed orders with BT in the half year.

Gross profit grew by GBP28 million to GBP1,294 million driven by new wave revenue but was still impacted by declines in traditional revenue. Selling, general and administration (SG&A) costs before leaver costs increased by GBP6 million. EBITDA before leaver costs increased year on year by GBP22 million to GBP479 million, representing growth of 5 per cent. Depreciation and amortisation charges increased by GBP34 million to GBP339 million, the result of a combination of customer related capital expenditure in the course of last year and business acquisitions. Overall, this took operating profit before leavers to GBP140 million, a reduction of GBP12 million from the previous year.

Capital expenditure in the half year was GBP367 million, an increase of GBP42 million driven principally by customer contracts outside of the UK.

### BT Retail

|                                      | Half year ended September 30 |       |
|--------------------------------------|------------------------------|-------|
|                                      | 2007                         | 2006  |
|                                      | GBPm                         | GBPm  |
| Revenue                              | 4,195                        | 4,145 |
| Gross margin                         | 1,218                        | 1,152 |
| SG&A before leaver costs             | 763                          | 735   |
| EBITDA before leaver costs           | 455                          | 417   |
| Depreciation and amortisation        | 82                           | 79    |
| Operating profit before leaver costs | 373                          | 338   |

Capital expenditure 92 80

BT Retail revenue increased by 1 per cent year on year reflecting the success of our strategy to grow new wave revenue whilst defending traditional revenue streams. Gross margin improved by 1 percentage point as a result of better product mix and cost efficiencies. SG&A before leaver costs increased by 4 per cent year on year reflecting increased expenditure in marketing and customer service. EBITDA before leaver costs grew by 9 per cent year on year, with all business units contributing to the growth.

New wave revenue grew by 17 per cent to GBP916 million, driven mainly by broadband and networked IT services, partially offset by a decline in traditional revenue of 3 per cent to GBP3,072 million, driven by a migration to new wave services and general competitive pressure.

Consumer revenue was broadly flat compared to the prior year, slowing the recent

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rate of decline. The consumer market remains highly competitive; despite this BT has maintained its market leading position by launching further product enhancements and package reductions.

Broadband is at the centre of BT Retail's strategy. Revenue grew by 21 per cent and net additions in the half year were 353,000 and BT became the UK's first broadband supplier with more than four million customers. BT's retail share of net market additions of DSL and LLU in the half year was 38 per cent. During the half year the acquisition of Brightview, which operates the ISP brands Madasafish and Global Internet as well as the Which-award winning Waitrose ISP, was also completed, further enhancing the broadband capabilities for our customers.

The SME business achieved revenue growth of 3 per cent and delivered strong EBITDA growth. More SME customers are choosing our all inclusive call packages with One Plan, which brings together calls and lines, broadband and mobile, for small businesses with 33,000 additions in the half year. One third of the SME customer base now take some form of value package from BT. Our ability to offer an end to end simple and complete solution has been enhanced through the acquisitions of Basilica Computing and Lynx Technologies.

The Enterprises division revenues grew by 6 per cent and EBITDA was up 26 per cent year on year. BT Ireland recorded a strong performance with revenue increasing by 5 per cent and EBITDA by 4 per cent.

### BT Wholesale

|                                      | Half year ended September 30 |       |
|--------------------------------------|------------------------------|-------|
|                                      | 2007                         | 2006  |
|                                      | GBPm                         | GBPm  |
| Revenue                              | 3,678                        | 3,732 |
| Variable cost of sales               | 1,852                        | 1,883 |
| Gross variable profit                | 1,826                        | 1,849 |
| Network and SG&A before leaver costs | 874                          | 887   |
| EBITDA before leaver costs           | 952                          | 962   |
| Depreciation and amortisation        | 535                          | 576   |
| Operating profit before leaver costs | 417                          | 386   |
| <br>                                 |                              |       |
| Capital expenditure                  | 588                          | 466   |

BT Wholesale revenue in the half year decreased by GBP54 million to GBP3,678 million. This was driven primarily by price and volume reductions in broadband due to LLU migrations, as well as declines in low margin transit, conveyance traffic and other traditional products.

Gross variable profit decreased by 1 per cent to GBP1,826 million, reflecting the lower broadband revenues. Network and SG&A costs decreased by 1 per cent with network costs on the roll-out of 21CN being more than offset by network consolidation efficiencies and SG&A cost savings.

EBITDA before leaver costs decreased by 1 per cent to GBP952 million. Depreciation has fallen by 7 per cent year on year due to a reduction in the depreciation on traditional technologies as assets become fully depreciated which was only partially offset by higher depreciation on 21CN related assets as they are brought into use. Operating profit before leaver costs increased by 8 per cent to GBP417 million.

Capital expenditure of GBP588 million was 26 per cent higher than last half year driven by an increase in 21CN related investment. This is driven by accelerated



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investment in exchanges to build, commission and implement the 21CN infrastructure. This essential work ensures that vendor equipment is ready for integration into the live networks.

### Openreach

|                                      | Half year ended September 30 |       |
|--------------------------------------|------------------------------|-------|
|                                      | 2007                         | 2006  |
|                                      | GBPm                         | GBPm  |
| Revenue                              | 2,614                        | 2,538 |
| Operating costs before leaver costs  | 1,675                        | 1,606 |
| EBITDA before leaver costs           | 939                          | 932   |
| Depreciation and amortisation        | 351                          | 353   |
| Operating profit before leaver costs | 588                          | 579   |
| <br>                                 |                              |       |
| Capital expenditure                  | 545                          | 550   |

Openreach revenue increased by 3 per cent to GBP2,614 million, driven by growth in broadband revenues for LLU and Ethernet products.

At September 30, 2007 Openreach had 3.2 million external LLU lines (with net additions of 1.3 million in the half year) and 8.5 million lines with other BT lines of business. Overall broadband revenue has increased by 32 per cent year on year as exchange rollout continues and the broadband market expands. Openreach has over 4.4 million external WLR lines and channels and 22.7 million WLR lines and channels with other BT lines of business. Overall WLR revenues remained largely flat year on year.

Operating costs before leaver costs increased by GBP69 million to GBP1,675 million. Headcount has increased by 2,500 since September 30, 2006 as Openreach has invested in service improvements. This investment, as well as inflationary pressures, higher activity levels and increased maintenance and support costs of new systems have been partly offset by efficiency programme savings across the business to keep the overall increase in operating costs before leaver costs to 4 per cent.

Overall this has resulted in a GBP7 million increase in EBITDA before leaver costs.

Depreciation and amortisation costs of GBP351 million have decreased by GBP2 million with the impact of increased depreciation on the Equivalence Management Platform and LLU assets from the large capital investment in prior periods being more than offset by lower amortisation on software. Operating profit before leaver costs increased by GBP9 million to GBP588 million.

Capital expenditure was 1 per cent lower at GBP545 million. Increased customer driven spend on network infrastructure and 21CN work have been offset by lower but continued spend on systems development required under the Undertakings agreed with Ofcom, focused cost control on capital expenditure and lower levels of co-mingling activity.

### UNAUDITED GROUP INCOME STATEMENT

For the six months ended September 30, 2007

|  | Before | Specific items | Total |
|--|--------|----------------|-------|
|--|--------|----------------|-------|

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|   | Notes | specific items<br>GBPm | (note 4)<br>GBPm | GBPm    |
|---|-------|------------------------|------------------|---------|
| Revenue   | 2     | 10,128                 | -                | 10,128  |
| Other operating income  |       | 140                    | (1)              | 139     |
| Operating costs   | 3     | (8,842)                | (240)            | (9,082) |
| Operating profit  |       | 1,426                  | (241)            | 1,185   |
| Finance expense   |       | (1,424)                | -                | (1,424) |
| Finance income  |       | 1,826                  | -                | 1,826   |
| Net finance income  | 5     | 402                    | -                | 402     |
| Share of post tax losses<br>of associates and joint<br>ventures |       | (6)                    | -                | (6)     |
| Profit on disposal of<br>associate                              |       | -                      | 9                | 9       |
| Profit before taxation  |       | 1,822                  | (232)            | 1,590   |
| Taxation  |       | (480)                  | 226              | (254)   |
| Profit for the period   |       | 1,342                  | (6)              | 1,336   |
| Attributable to:  |       |                        |                  |         |
| Equity shareholders   |       | 1,341                  | (6)              | 1,335   |
| Minority interests  |       | 1                      | -                | 1       |

For the six months ended September 30, 2006

|  | Notes | Before specific<br>items<br>GBPm | Specific items<br>(note 4)<br>GBPm | Total<br>GBPm |
|--|-------|----------------------------------|------------------------------------|---------------|
| Revenue  | 2     | 9,805                            | -                                  | 9,805         |
| Other operating income   |       | 102                              | -                                  | 102           |
| Operating costs  | 3     | (8,568)                          | (23)                               | (8,591)       |
| Operating profit   |       | 1,339                            | (23)                               | 1,316         |
| Finance expense  |       | (1,298)                          | -                                  | (1,298)       |
| Finance income   |       | 1,668                            | -                                  | 1,668         |
| Net finance income   | 5     | 370                              | -                                  | 370           |
| Share of post tax profits<br>of associates and joint<br>ventures |       | 7                                | -                                  | 7             |
| Profit on disposal of<br>associate                               |       | -                                | 20                                 | 20            |
| Profit before taxation   |       | 1,716                            | (3)                                | 1,713         |

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|   |       |     |       |
|---|-------|-----|-------|
| Taxation  | (449) | 1   | (448) |
| Profit for the period attributable to equity shareholders | 1,267 | (2) | 1,265 |

UNAUDITED GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the six months ended September 30, 2007

|   | Half year ended September 30 |       |
|---|------------------------------|-------|
|   | 2007                         | 2006  |
|   | GBPm                         | GBPm  |
| Profit for the period                                       | 1,336                        | 1,265 |
| Actuarial gains (losses) on defined benefit pension schemes | 2,065                        | (369) |
| Exchange differences on translation of foreign operations   | (5)                          | 34    |
| Fair value movements on cash flow hedges:                   |                              |       |
| - fair value losses   | (71)                         | (130) |
| - reclassified and reported in net profit                   | 84                           | 227   |
| Fair value movements on available-for-sale assets:          |                              |       |
| - fair value losses   | (25)                         | (2)   |
| - reclassified and reported in net profit                   | (5)                          | -     |
| Tax on items taken directly to equity                       | (714)                        | 46    |
| Net gains (losses) recognised directly in equity            | 1,329                        | (194) |
| Total recognised income and expense for the period          | 2,665                        | 1,071 |
|   | =====                        | ===== |
| Attributable to:  |                              |       |
| Equity shareholders   | 2,664                        | 1,071 |
| Minority interests  | 1                            | -     |
|   | =====                        | ===== |

UNAUDITED GROUP CASH FLOW STATEMENT

For the six months ended September 30, 2007

Half year ended September 30

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|  | 2007<br>GBPm | 2006<br>GBPm |
|--|--------------|--------------|
| Cash flow from operating activities  |              |              |
| Cash generated from operations (note 7 (a))                                      | 1,726        | 2,778        |
| Income taxes received (paid)   | 384          | (180)        |
| Net cash inflow from operating activities  | 2,110        | 2,598        |
| Cash flow from investing activities  |              |              |
| Interest received  | 86           | 37           |
| Dividends received from associates and joint ventures                            | 1            | 5            |
| Proceeds on disposal of property, plant and equipment                            | 27           | 57           |
| Proceeds on disposal of associates and joint ventures                            | 11           | 27           |
| Proceeds on disposal of non current financial assets                             | 1            | 1            |
| Proceeds on disposal of current financial assets                                 | -            | 1,881        |
| Acquisition of subsidiaries, net of cash acquired                                | (233)        | (45)         |
| Purchases of property, plant and equipment and computer software                 | (1,644)      | (1,653)      |
| Investments in associates and joint ventures                                     | -            | (7)          |
| Purchases of non current financial assets  | (1)          | (1)          |
| Purchases of current financial assets  | (435)        | (2,361)      |
| Net cash used in investing activities  | (2,187)      | (2,059)      |
| Cash flows from financing activities   |              |              |
| Equity dividends paid  | (2,300)      | (1,608)      |
| Dividends paid to minority interests   | -            | (3)          |
| Interest paid  | (329)        | (318)        |
| Repayments of borrowings   | (736)        | (153)        |
| Repayment of finance lease liabilities   | (12)         | (9)          |
| New bank loans and bonds   | 2,253        | -            |
| Intragroup funding   | 916          | 470          |
| Net proceeds on issue of commercial paper  | 424          | 227          |
| Net cash received (used) in financing activities                                 | 216          | (1,394)      |
| Effects of exchange rate changes   | 3            | -            |
| Net increase (decrease) in cash and cash equivalents                             | 142          | (855)        |
| Cash and cash equivalents at beginning of period                                 | 1,007        | 1,761        |
| Cash and cash equivalents, net of bank overdrafts, at end of period (note 7 (c)) | 1,149        | 906          |

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UNAUDITED GROUP BALANCE SHEET

At September 30, 2007

|  | September 30<br>2007<br>GBPm | March 31<br>2007<br>GBPm |
|--|------------------------------|--------------------------|
| Non current assets                                 |                              |                          |
| Intangible assets                                  | 2,985                        | 2,584                    |
| Property, plant and equipment                      | 15,157                       | 14,997                   |
| Derivative financial instruments                   | 35                           | 25                       |
| Investments  | 60                           | 246                      |
| Associates and joint ventures                      | 73                           | 67                       |
| Trade and other receivables                        | 656                          | 523                      |
| Retirement benefit assets of the BT Pension Scheme | 2,186                        | -                        |
| Deferred tax assets                                | 27                           | 117                      |
|  | -----                        | -----                    |
|  | 21,179                       | 18,559                   |
|  | -----                        | -----                    |
| Current assets                                     |                              |                          |
| Inventories  | 134                          | 133                      |
| Trade and other receivables                        | 24,035                       | 22,815                   |
| Current tax receivables                            | -                            | 504                      |
| Derivative financial instruments                   | 56                           | 27                       |
| Investments  | 441                          | 3                        |
| Cash and cash equivalents                          | 1,525                        | 1,058                    |
|  | -----                        | -----                    |
|  | 26,191                       | 24,540                   |
|  | -----                        | -----                    |
| Total assets                                       | 47,370                       | 43,099                   |
| Current liabilities                                |                              |                          |
| Loans and other borrowings                         | 4,253                        | 2,493                    |
| Derivative financial instruments                   | 257                          | 318                      |
| Trade and other payables                           | 7,053                        | 6,976                    |
| Current tax liabilities                            | 865                          | 582                      |
| Provisions   | 87                           | 100                      |
|  | -----                        | -----                    |
|  | 12,515                       | 10,469                   |
|  | -----                        | -----                    |
| Total assets less current liabilities              | 34,855                       | 32,630                   |
|  | =====                        | =====                    |
| Non current liabilities                            |                              |                          |
| Loans and other borrowings                         | 7,981                        | 6,387                    |
| Derivative financial instruments                   | 1,040                        | 992                      |
| Other payables                                     | 628                          | 590                      |
| Deferred tax liabilities                           | 2,153                        | 1,683                    |
| Retirement benefit obligations                     | 96                           | 389                      |
| Provisions   | 217                          | 225                      |
|  | -----                        | -----                    |

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|                                  |        |        |
|----------------------------------|--------|--------|
|                                  | 12,115 | 10,266 |
|                                  | -----  | -----  |
| Equity                           |        |        |
| Ordinary shares                  | 2,172  | 2,172  |
| Share premium                    | 8,000  | 8,000  |
| Other reserves                   | 758    | 758    |
| Retained earnings                | 11,779 | 11,400 |
|                                  | -----  | -----  |
| Total equity shareholders' funds | 22,709 | 22,330 |
| Minority interests               | 31     | 34     |
|                                  | -----  | -----  |
| Total equity                     | 22,740 | 22,364 |
|                                  | -----  | -----  |
|                                  | 34,855 | 32,630 |
|                                  | =====  | =====  |

### NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1 Basis of preparation and accounting policies

These condensed consolidated financial statements ("the financial statements") comprise the financial results of British Telecommunications plc for the half years ended September 30, 2007 and 2006, together with the audited balance sheet at March 31, 2007. The financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'. The financial statements should be read in conjunction with the annual financial statements for the year ended and as at March 31, 2007.

The financial statements have also been prepared in accordance with the accounting policies as set out in the 2007 Annual Report and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

The group has adopted the following standards and interpretations with effect from April 1, 2007. Adoption of these standards and interpretations did not have a material effect on these financial statements:

- IFRS 7, 'Financial Instruments: Disclosures';
- Amendments to IAS 1, 'Presentation of Financial Statements - Capital Disclosures';
- IFRIC 8, 'Scope of IFRS 2';
- IFRIC 9, 'Reassessment of embedded derivatives';
- IFRIC 10, 'Financial Reporting and Impairment'; and
- IFRIC 11, 'IFRS 2 -Group and Treasury Share Transactions'.

These interim financial statements reflect all adjustments which are, in the opinion of management, necessary to provide a fair statement of the results for the interim periods presented. Such financial statements may not be necessarily indicative of annual results.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after April 1, 2007 or later periods, but which the group has not early

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adopted. The new standards which are relevant to the group's operations are as follows:

- Amendment to IAS 23 'Borrowing Costs' (effective from April 1, 2009) eliminates the option to expense borrowing costs attributable to the acquisition, construction or production of a qualifying asset as incurred. As a result, the group will be required to capitalise such borrowing costs as part of the cost of that asset. The group is currently assessing the impact of the amendment on the results and net assets of the group.
  
- IFRS 8 'Operating Segments' (effective from April 1, 2009) requires the identification of operating segments based on internal reporting to the chief operating decision maker and extends the scope and disclosure requirements of IAS 14 'Segmental Reporting'. The group is currently assessing the impact of IFRS 8 on its segmental analysis disclosure.
  
- IFRIC 13 'Customer Loyalty Programmes' (effective from April 1, 2009) requires companies that grant loyalty award credits to customers who buy other goods or services to allocate some of the proceeds from the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligation. A company may fulfil its obligation by supplying awards themselves or engaging a third party to do so. The group does not expect adoption of this guidance to have a significant impact on the group's financial statements.
  
- IFRIC 14 'Limit on a defined benefit asset minimum funding requirement and their interaction' (effective from April 1, 2008) clarifies that a pension plan surplus can be recognised only when a company has the unconditional right to receive the benefits of it, regardless whether the surplus is immediately available. The group does not expect adoption of this guidance to have a significant impact on the group's financial statements.

### 2 Results of businesses

| (a)                | Operating results   |                     |                  |                |  |
|--------------------|---------------------|---------------------|------------------|----------------|--|
|                    | External<br>revenue | Internal<br>revenue | Group<br>revenue | EBITDA<br>(ii) | Group operating<br>profit (loss)<br>(ii) |
|                    | GBPm                | GBPm                | GBPm             | GBPm           | GBPm                                     |
| Half year ended    |                     |                     |                  |                |  |
| September 30, 2007 |                     |                     |                  |                |  |
| BT Global Services | 3,773               | 763                 | 4,536            | 479            | 140                                      |
| BT Retail          | 3,988               | 207                 | 4,195            | 455            | 373                                      |
| BT Wholesale       | 1,936               | 1,742               | 3,678            | 952            | 417                                      |
| Openreach          | 419                 | 2,195               | 2,614            | 939            | 588                                      |
| Other              | 12                  | -                   | 12               | 54             | (41)                                     |
| Intra-group items  |                     |                     |                  |                |  |
| (i)                | -                   | (4,907)             | (4,907)          | -              | -  |
|                    | -----               | -----               | -----            |                | -----                                    |
| Total              | 10,128              | -                   | 10,128           | 2,879          | 1,477                                    |
|                    | =====               | =====               | =====            | =====          | =====                                    |
| Half year ended    |                     |                     |                  |                |  |
| September 30, 2006 |                     |                     |                  |                |  |
| BT Global Services | 3,517               | 795                 | 4,312            | 457            | 152                                      |
| BT Retail          | 3,959               | 186                 | 4,145            | 417            | 338                                      |
| BT Wholesale       | 2,027               | 1,705               | 3,732            | 962            | 386                                      |
| Openreach          | 292                 | 2,246               | 2,538            | 932            | 579                                      |

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|                   |       |         |         |       |       |
|-------------------|-------|---------|---------|-------|-------|
| Other             | 10    | -       | 10      | 34    | (59)  |
| Intra-group items |       |         |         |       |       |
| (i)               | -     | (4,932) | (4,932) | -     | -     |
|                   | ----- | -----   | -----   | ----- | ----- |
| Total             | 9,805 | -       | 9,805   | 2,802 | 1,396 |
|                   | ===== | =====   | =====   | ===== | ===== |

- (i) Elimination of intra-group revenue between businesses, which is included in the total revenue of the originating business.
- (ii) Before specific items of GBP241 million (2006 - GBP23 million) and leaver costs of GBP51 million (2006 - GBP57 million).

There is extensive trading between BT's lines of business and the line of business profitability is dependent on the transfer price levels. For regulated products and services those transfer prices are market based whilst for other products and services the transfer prices are agreed between the relevant lines of business on an arm's length basis. These intra-group trading arrangements are subject to periodic review.

(b) Revenue analysis

Half year ended September 30

|                   | 2007   | 2006  |
|-------------------|--------|-------|
|                   | GBPm   | GBPm  |
| Traditional       | 6,399  | 6,428 |
| New wave          | 3,729  | 3,377 |
|                   | -----  | ----- |
|                   | 10,128 | 9,805 |
|                   | =====  | ===== |
| Major corporate   | 3,615  | 3,402 |
| Business          | 1,213  | 1,181 |
| Consumer          | 2,520  | 2,509 |
| Wholesale/Carrier | 2,768  | 2,703 |
| Other             | 12     | 10    |
|                   | -----  | ----- |
|                   | 10,128 | 9,805 |
|                   | =====  | ===== |

(c) New wave revenue analysis

Half year ended September 30

|                       | 2007  | 2006  |
|-----------------------|-------|-------|
|                       | GBPm  | GBPm  |
| Networked IT services | 2,181 | 1,982 |
| Broadband             | 1,083 | 940   |
| Mobility              | 168   | 143   |
| Other                 | 297   | 312   |
|                       | ----- | ----- |
|                       | 3,729 | 3,377 |
|                       | ===== | ===== |

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

Half year ended September 30

|  | 2007 | 2006 |
|--|------|------|
|  | GBPm | GBPm |



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|   |       |       |
|---|-------|-------|
| BT Global Services                            | 367   | 325   |
| BT Retail                                     | 92    | 80    |
| BT Wholesale                                  | 588   | 466   |
| Openreach                                     | 545   | 550   |
| Other (including fleet vehicles and property) | 110   | 106   |
|   | ----- | ----- |
|   | 1,702 | 1,527 |
|   | ===== | ===== |

|                                |       |       |
|--------------------------------|-------|-------|
| Transmission equipment         | 568   | 594   |
| Exchange equipment             | 55    | 53    |
| Other network equipment        | 566   | 389   |
| Computers and office equipment | 55    | 50    |
| Software                       | 410   | 382   |
| Motor vehicles and other       | 25    | 27    |
| Land and buildings             | 23    | 32    |
|                                | ----- | ----- |
|                                | 1,702 | 1,527 |
|                                | ===== | ===== |

3 (a) Operating costs

Half year ended September 30

|   |       |       |
|---|-------|-------|
|   | 2007  | 2006  |
|   | GBPm  | GBPm  |
| Staff costs before leaver costs         | 2,596 | 2,530 |
| Leaver costs                            | 51    | 57    |
|   | ----- | ----- |
| Staff costs                             | 2,647 | 2,587 |
| Own work capitalised                    | (379) | (346) |
|   | ----- | ----- |
| Net staff costs                         | 2,268 | 2,241 |
| Depreciation and amortisation           | 1,402 | 1,406 |
| Payments to telecommunication operators | 2,116 | 2,040 |
| Other operating costs                   | 3,056 | 2,881 |
|   | ----- | ----- |
| Total before specific items             | 8,842 | 8,568 |
| Specific items (note 4)                 | 240   | 23    |
|   | ----- | ----- |
| Total                                   | 9,082 | 8,591 |
|   | ===== | ===== |

(b) Leaver costs

Half year ended September 30

|                    |       |       |
|--------------------|-------|-------|
|                    | 2007  | 2006  |
|                    | GBPm  | GBPm  |
| BT Global Services | 16    | 22    |
| BT Retail          | 5     | 9     |
| BT Wholesale       | 19    | 16    |
| Openreach          | 8     | 2     |
| Other              | 3     | 8     |
|                    | ----- | ----- |
| Total              | 51    | 57    |
|                    | ===== | ===== |

4 Specific items

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BT separately identifies and discloses any significant one off or unusual items (termed "specific items"). This is consistent with the way that financial performance is measured by management and we believe assists in providing a meaningful analysis of the trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies.

|   | Half year ended September 30 |       |
|---|------------------------------|-------|
|   | 2007                         | 2006  |
|   | GBPm                         | GBPm  |
| Restructuring costs   | 216                          | -     |
| Write off of circuit inventory and other working capital balances | 24                           | -     |
| Property rationalisation costs                                    | -                            | 23    |
|   | ----                         | ----  |
| Specific operating costs  | 240                          | 23    |
| Loss on sale of investment  | 1                            | -     |
| Profit on disposal of associate                                   | (9)                          | (20)  |
|   | -----                        | ----- |
| Net specific items charge before tax                              | 232                          | 3     |
|   |                              | ===   |
| Tax credit on specific items                                      | (72)                         | (1)   |
| Tax credit on re-measurement of deferred tax                      | (154)                        | -     |
|   | -----                        | ----  |
| Net specific items charge after tax                               | 6                            | 2     |
|   | ====                         | ====  |

### 5 Net finance (income) expense

|  | Half year ended September 30 |         |
|--|------------------------------|---------|
|  | 2007                         | 2006    |
|  | GBPm                         | GBPm    |
| Finance expense before pension interest  | 410                          | 362     |
| Interest on pension scheme liabilities   | 1,014                        | 936     |
|  | -----                        | -----   |
| Finance expense                          | 1,424                        | 1,298   |
|  | -----                        | -----   |
| Finance income before pension income     | (602)                        | (522)   |
| Expected return on pension scheme assets | (1,224)                      | (1,146) |
|  | -----                        | -----   |
| Finance income                           | (1,826)                      | (1,668) |
|  | -----                        | -----   |
| Net finance income                       | (402)                        | (370)   |
|  | =====                        | =====   |
| Net finance income before pensions       | (192)                        | (160)   |
| Interest income associated with pensions | (210)                        | (210)   |
|  | -----                        | -----   |
| Net finance income                       | (402)                        | (370)   |
|  | =====                        | =====   |

1Finance expense in the half year ended September 30, 2007 include a GBP3 million net charge (September 30, 2006 - GBP1 million) arising from the re-measurement of financial instruments which under IAS 39 are not in hedging relationships on a fair value basis.

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### 6 Dividends

Half year ended September 30

|   | 2007<br>GBPm   | 2006<br>GBPm   |
|---|----------------|----------------|
| Interim dividends paid in respect of the current financial year 1 | 2,300<br>===== | 1,608<br>===== |

1 Interim dividends were paid to the parent company (BT Group Investments Limited) in the half year ended September 30, 2007 as follows: first interim dividend of GBP300 million (June 18, 2007) and second interim dividend of GBP2,000 million (July 24, 2007).

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

Half year ended September 30

|  | 2007<br>GBPm   | 2006<br>GBPm   |
|--|----------------|----------------|
| Profit before tax                        | 1,590          | 1,713          |
| Depreciation and amortisation            | 1,402          | 1,406          |
| Net finance income                       | (402)          | (370)          |
| Associates and joint ventures            | 6              | (7)            |
| Employee share scheme costs              | 36             | 47             |
| Profit on disposal of associates         | (8)            | (20)           |
| Changes in working capital               | (696)          | (153)          |
| Provisions, pensions and other movements | (202)          | 162            |
|  | -----          | -----          |
| Cash generated from operations           | 1,726<br>===== | 2,778<br>===== |

### (b) Free cash flow

Half year ended September 30

|   | 2007<br>GBPm | 2006<br>GBPm |
|---|--------------|--------------|
| Cash generated from operations                          | 1,726        | 2,778        |
| Income taxes (paid) received                            | 384          | (180)        |
|   | -----        | -----        |
| Net cash inflow from operating activities               | 2,110        | 2,598        |
| Included in cash flows from investing activities        |              |              |
| Net purchase of property, plant, equipment and software | (1,617)      | (1,596)      |
| Dividends received from associates                      | 1            | 5            |
| Interest received                                       | 86           | 37           |
| Included in cash flows from financing activities        |              |              |
| Interest paid   | (329)        | (318)        |
|   | -----        | -----        |
| Free cash flow  | 251<br>===== | 726<br>===== |

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

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(c) Cash and cash equivalents

|                           | At September<br>30, 2007 | At March 31,<br>2007 |
|---------------------------|--------------------------|----------------------|
|                           | -----<br>GBPm            | -----<br>GBPm        |
| Cash at bank and in hand  | 753                      | 551                  |
| Short term deposits       | 772                      | 507                  |
|                           | -----                    | -----                |
| Cash and cash equivalents | 1,525                    | 1,058                |
| Bank overdrafts           | (376)                    | (51)                 |
|                           | -----                    | -----                |
|                           | 1,149                    | 1,007                |
|                           | =====                    | =====                |

8 Net debt

Net debt at September 30, 2007 was GBP10,565 million (March 31, 2007 - GBP8,210 million). Net debt consists of loans and other borrowings less current asset investments and cash and cash equivalents. Loans and other borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this analysis current asset investments, cash and cash equivalents are measured at the lower of cost and net realisable value. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged.

This definition of net debt measures balances at the future cash flows due to arise on maturity of financial instruments and removes the balance sheet adjustments made for the re-measurement of hedged risks under fair value hedges and the use of the amortised cost method as required by IAS 39. In addition, the gross balances are adjusted to take account of netting arrangements amounting to GBP374 million. Net debt is a non GAAP measure since it is not defined in IFRS but it is a key indicator used by management in order to assess operational performance.

(a) Analysis

|  | At September<br>30, 2007 | At March 31,<br>2007 |
|--|--------------------------|----------------------|
|  | -----<br>GBPm            | -----<br>GBPm        |
| Loans and other borrowings   | 12,234                   | 8,880                |
| Cash and cash equivalents  | (1,525)                  | (1,058)              |
| Investments  | (441)                    | (3)                  |
|  | -----                    | -----                |
|  | 10,268                   | 7,819                |
| Adjustments:   |                          |                      |
| To retranslate currency<br>denominated balances at swapped<br>rates where hedged | 569                      | 577                  |
| To recognise borrowings at net<br>proceeds and unamortised discount              | (272)                    | (186)                |
|  | -----                    | -----                |
| Net debt 1   | 10,565                   | 8,210                |
|  | =====                    | =====                |

After allocating the element of the adjustments which impact loans and other borrowings, gross debt at September 30, 2007 was GBP12,154 million (March 31, 2007 - GBP9,222 million).

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1 Net debt includes borrowings due to parent companies of GBP1,231 million, and excludes net external debt of parent companies of GBP284 million. Net debt of BT Group plc was GBP9,618 million at September 30, 2007

### (b) Reconciliation of movement in net debt

Half year ended September 30, 2007

|  | GBPm   |
|--|--------|
| Net debt at beginning of period                | 8,210  |
| Increase in net debt resulting from cash flows | 2,271  |
| Net debt assumed or issued on acquisitions     | 31     |
| Currency movements                             | 1      |
| Other non-cash movements                       | 52     |
|  | -----  |
| Net debt at end of period                      | 10,565 |
|  | =====  |

During the half year ended September 30, 2007, the group issued debt of GBP3,593 million consisting mainly of long term listed bonds of GBP1,501 million, in aggregate, maturing in 2014, 2017 and 2037, bank borrowings of GBP300 million maturing in 2012 and short term borrowings of GBP1,792 million (including net commercial paper issuances of GBP424 million). Debt maturities amounted to GBP748 million. The net increase in short term investments, including cash, resulted in a cash inflow of GBP574 million.

### 9 Statement of changes in equity

|   | Half year ended<br>September 30 |
|---|---------------------------------|
|   | -----                           |
|   | 2007                            |
|   | GBPm                            |
| Shareholders' funds                             | 22,330                          |
| Minority interest                               | 34                              |
|   | -----                           |
| Equity at beginning of period                   | 22,364                          |
|   | ====                            |
| Profit for the period                           | 1,336                           |
| Share based payment                             | 17                              |
| Actuarial gains on pension schemes              | 2,065                           |
| Tax on items taken directly to equity           | (714)                           |
| Net fair value movements on cash flow hedges    | 13                              |
| Net movements on available for sale investments | (30)                            |
| Exchange differences on translation             | (6)                             |
| Equity dividends on ordinary shares             | (2,300)                         |
| Minority interest                               | (5)                             |
|   | -----                           |
| Net changes in equity for the period            | 376                             |
| Equity at end of period                         |                                 |
| Shareholders' funds                             | 22,709                          |
| Minority interest                               | 31                              |
|   | -----                           |
| Total equity                                    | 22,740                          |
|   | =====                           |

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

Half year ended September 30

|                               | 2007  | 2006  |
|-------------------------------|-------|-------|
|                               | GBPm  | GBPm  |
| Operating profit              | 1,185 | 1,316 |
| Specific items (note 4)       | 241   | 23    |
| Depreciation and amortisation | 1,402 | 1,406 |
|                               | ----- | ----- |
| EBITDA before specific items  | 2,828 | 2,745 |
|                               | ===== | ===== |

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 Business Combinations

#### Comsat International Inc

On June 14, 2007 the group acquired Comsat International Inc ('Comsat Int'l') through the purchase of 100 per cent of the issued share capital of its parent company, CI Holding Corporation, for a total consideration of GBP130 million, including GBP8 million deferred, contingent consideration. Provisional fair values for the assets and liabilities acquired and goodwill arising as are follows:

|                               | Book value | Provisional<br>fair value |
|-------------------------------|------------|---------------------------|
|                               | GBPm       | GBPm                      |
|                               | -----      | -----                     |
| Property, plant and equipment | 70         | 72                        |
| Other non current assets      | 4          | 4                         |
| Trade and other receivables   | 32         | 32                        |
| Cash and cash equivalents     | 3          | 3                         |
| Trade and other payables      | (44)       | (45)                      |
| Non current payables          | (14)       | (17)                      |
|                               | -----      | -----                     |
| Net assets acquired           | 51         | 49                        |
| Goodwill                      |            | 81                        |
|                               |            | -----                     |
| Total consideration           |            | 130                       |
|                               |            | =====                     |

The fair values relating to the acquisition of Comsat Int'l are provisional, due to the timing of the transaction, and will be finalised in the second half of the financial year. From the date of acquisition to September 30, 2007, Comsat Int'l has contributed to the group's results revenue of GBP28 million and profit of GBP2 million. If the acquisition had occurred on April 1, 2007, the group's revenue and profit would have been higher by GBP20 million and by GBP1 million, respectively.

#### Other

During the half year ended September 30, 2007, the group acquired a number of

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other smaller subsidiaries, including principally i2i Enterprise Private Limited, Basilica Group Limited, Brightview plc and Lynx Technologies for a total consideration of GBP126 million, including GBP40 million of deferred, contingent consideration. The provisional fair value of the combined net assets and goodwill arising in respect of these acquisitions were as follows:

| At date of acquisition        | Book value | Provisional<br>fair value |
|-------------------------------|------------|---------------------------|
|                               | GBPm       | GBPm                      |
|                               | -----      | -----                     |
| Property, plant and equipment | 7          | 3                         |
| Trade and other receivables   | 26         | 26                        |
| Cash and cash equivalents     | 2          | 2                         |
| Trade and other payables      | (19)       | (19)                      |
|                               | -----      | -----                     |
| Net assets acquired           | 16         | 12                        |
| Goodwill                      |            | 114                       |
|                               | ---        | -----                     |
| Total consideration           |            | 126                       |
|                               | ===        | =====                     |

The fair value adjustments relating to these acquisitions are provisional due to the timing of the transactions and will be finalised in the second half of the financial year. From the date of acquisition, these acquisitions have contributed to the group's results revenue of GBP22 million and profit of GBP2 million. If the acquisitions had occurred on April 1, 2007, the group's revenue and profit would have been higher by GBP64 million and GBP3 million, respectively.

Acquisitions made in the year ended March 31, 2007

During the period, the group has updated the acquisition accounting for Counterpane, an acquisition made in the year ended March 31, 2007. As a result, a reclassification has been made between goodwill and other intangible assets to recognise the fair value of proprietary technology acquired with the business. Prior year balances have not been restated as the amount of the adjustment is not significant to the group.

### 12 Related party transactions

During the half year ended September 30, 2007, the group purchased services in the normal course of business and on an arm's length basis from its associate, Tech Mahindra Limited. The value of services purchased was GBP145 million (September 30, 2006: GBP108 million) and the amounts outstanding and payable for services at September 30, 2007 was GBP114 million (September 30, 2006: GBP64 million).

### 13 Post balance sheet events

On November 22, 2007 the group issued EUR1 billion (GBP716 million) of debt maturing in 2013. On October 19, 2007 the group paid an interim dividend to the parent company, BT Group Investments Limited of GBP425 million.

Forward-looking statements - caution

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This document contains "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 with respect to BT's financial condition, results of operations and businesses and certain of BT's plans and objectives. Forward-looking statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. In particular, such forward-looking statements include, without limitation, statements concerning BT's transformation strategy and its ability to achieve it; expected cost savings; anticipated benefits of BT's business transformation and accelerated costs savings; expected cost savings and improved shareholder returns; expectations regarding competition, market shares, prices and growth; expectations regarding convergence of technologies; continued growth in revenue, EBITDA, earnings per share and dividends; growth and opportunities in new wave business; BT's network development and implementation of and plans for the 21st century network; plans for the launch of new products and services, including the introduction of next generation services; BT's possible or assumed future results of operations and/or those of its associates and joint ventures; BT's future dividend policy; capital expenditure and investment plans; adequacy of capital; financing plans; demand for and access to broadband and the promotion of broadband by third-party service providers; and overall market trends and other trend projections.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as "aims", "believes", "expects", "anticipates", "intends", "will", "should", "could", "may", "plans", "targets" or similar expressions. By their nature, forward-looking statements are inherently predictive and speculative, and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are number of factors that could cause the actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following: material adverse change in economic conditions in the markets served by BT and its lines of business; future regulatory actions and conditions in its 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; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; the anticipated benefits and advantages of new technologies, products and services, including broadband and other new wave initiatives not being realized; developments in the convergence of technologies, prolonged adverse weather conditions resulting in a material adverse increase in overtime, staff or other costs; the timing of entry and profitability of BT and its lines of business in certain communications markets; significant changes in the market shares for BT and its principal products and services; fluctuations in foreign currency exchange rates and interest rates; and general financial market conditions affecting BT's performance.

No assurances can be given that forward-looking statements in this document will be realized. Neither the Company nor any of its affiliates intends to update these forward-looking statements.

### 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.

British Telecommunications plc



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By: /s/ Glyn Parry  
Name: Glyn Parry  
Title: Director and Head of Group Financial Control

Date: December 5, 2007