BT GROUP PLC
Form 6-K
November 12, 2009

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

Date of Announcement: 12 November 2009

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-________

Enclosure: 1. Interim Results announcement made on 12 November 2009

12 November 2009

BT GROUP PLC

RESULTS FOR THE SECOND QUARTER AND HALF YEAR TO 30 SEPTEMBER 2009

Key points for the second quarter:

- Revenue[1] of £5,122m, down 3%, or 6% excluding foreign exchange movements and acquisitions
- Adjusted EBITDA[1] of £1,436m, up 2% reflecting progress in all lines of business
- Continued improvement in BT Global Services with adjusted EBITDA[1] of £95m, up 53% on the first quarter
- Adjusted earnings per share[1] of 4.5p, down 8%, reported earnings per share of 5.5p, up 12%
- Free cash flow of £705m, up £336m including a tax repayment and associated interest of £226m
- Net debt[4] reduced to £9.9bn
- Total underlying costs[2] down £932m in the half year
- Interim dividend of 2.3p per share

2009/10 Outlook:

	Previous	**New**
· Revenue[1] decline	4%-5%	3%-4%
· Capital expenditure	c.£2.7bn	c.£2.6bn
· Total underlying cost[2] reductions	well over £1bn	at least £1.5bn
· Free cash flow[3]	over £1bn	at least £1.6bn

- Net debt[4] - below £10bn
- Full year dividend - up c.5%

Ian Livingston, Chief Executive, commenting on the results, said:

"We have had another quarter of progress but there remains a lot more to do. With total cost[2] reductions of over £900m in the first half, we have made significant headway towards our previous target of well over £1bn for the full year. We now expect to generate at least £1.6bn of free cash flow[3] this year, compared with our previous target of over £1bn.

"We are investing in the future of the business with an enhanced and accelerated programme of fibre deployment and wider roll out of faster broadband speeds, all within our capital expenditure plans.

"Given our operational performance, we expect to increase dividends by around 5% for the full year. The Board is declaring an interim dividend of 2.3p per share."

[1] Before specific items, leaver costs and net interest on pensions.

[2] Underlying operating costs and capital expenditure.

[3] Before gross pension deficit payments of £525m, but after cash costs of BT Global Services restructuring.

[4] Net debt is defined in Note 12.

RESULTS FOR THE SECOND QUARTER AND HALF YEAR TO 30 SEPTEMBER 2009

Group results

	Second quarter to 30 September			**Half year to 30 September**		
	2009	2008[1]	Change	**2009**	2008[1]	Change
	£m	£m	%	**£m**	£m	%
Revenue[2]	**5,122**	5,303	(3)	**10,357**	10,480	(1)
EBITDA						
- adjusted[2]	**1,436**	1,407	2	**2,807**	2,824	(1)
- reported	**1,309**	1,333	(2)	**2,594**	2,650	(2)
Operating profit						
- adjusted[2]	**677**	722	(6)	**1,310**	1,448	(10)
- reported	**550**	648	(15)	**1,097**	1,274	(14)
Profit before tax						
- adjusted[2]	**461**	490	(6)	**888**	1,009	(12)
- reported	**275**	494	(44)	**547**	991	(45)
Earnings per share						
- adjusted[2]	**4.5p**	4.9p	(8)	**8.8p**	10.0p	(12)
- reported	**5.5p**	4.9p	12	**8.3p**	9.8p	(15)
Interim dividend	**-**	-	-	**2.3p**	5.4p	(57)
Capital expenditure	**558**	766	(27)	**1,117**	1,568	(29)
Free cash flow	**705**	369	91	**583**	(365)	n/m
Net debt	**-**	-	-	**9,878**	11,028	(10)

Line of business results

	Revenue[2]	Change[1]	**EBITDA**[2]	Change[1]
Second quarter to 30 September 2009	**£m**	%	**£m**	%
BT Global Services	**2,024**	(3)	**95**	(10)
BT Retail	**2,062**	(5)	**475**	11
BT Wholesale	**1,125**	(4)	**328**	1
Openreach	**1,285**	(1)	**507**	4
Other	**10**	n/m	**31**	(48)
Intra-group items	**(1,384)**	5	**-**	-
Total	**5,122**	(3)	**1,436**	2

[1] Restated - see Note 1 for details.

[2] Before specific items, leaver costs and net interest on pensions.

Notes:
Unless otherwise stated, any reference to earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, and operating costs is measured before specific items and leaver costs. In addition, adjusted profit before tax and adjusted earnings per share (EPS) are also shown before net interest on pensions due to the volatile nature of this item (see Notes 9 and 10). Unless otherwise stated, the change in results is year on year. Reported EBITDA, reported operating profit, reported profit before tax and reported EPS are the equivalent unadjusted or statutory measures.

Underlying revenue, underlying operating costs, underlying EBITDA and underlying capital expenditure refer to the measure excluding foreign exchange rate movements and acquisitions. Underlying revenue and operating costs are also stated before specific items, leaver costs and depreciation and amortisation.

The commentary focuses on the trading results before specific items and leaver costs. This is consistent with the way that financial performance is measured by management and we believe allows a meaningful analysis to be made of the trading results of the group. Specific items are defined in Note 5.

The income statement, cash flow statement and balance sheet are provided on pages 12 to 16. A reconciliation of group operating profit to EBITDA (as defined above) is provided in Note 8. A reconciliation of reported profit before tax (as defined above) to adjusted profit before tax is provided in Note 9. A reconciliation of reported EPS to adjusted EPS is provided in Note 10. A definition and reconciliation of free cash flow and net debt are provided In Notes 11 and 12.

The line of business commentaries also discuss operating cash flow before specific items and leaver costs. Operating cash flow is defined as EBITDA less direct and allocated capital expenditure (net of capital accrual movements), working capital movements and movements in provisions and other non-cash items.

For the avoidance of doubt all page and note references refer to the full results release for the second quarter and half year to 30 September 2009.

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A presentation for analysts and investors will be held in London at 9.00am today and a simultaneous webcast will be available at www.bt.com/results.

Results for the third quarter to 31 December 2009 are expected to be announced on 11 February 2010.

About BT

BT is one of the world's leading providers of communications solutions and services operating in 170 countries. Its principal activities include the provision of networked IT services globally; local, national and international telecommunications services to our customers for use at home, at work and on the move; broadband and internet products and services and converged fixed/mobile products and services. BT consists principally of four lines of business: BT Global Services, BT Retail, BT Wholesale and Openreach.

British Telecommunications plc (BT) is a wholly-owned subsidiary of BT Group plc and encompasses virtually all businesses and assets of the BT Group. BT Group plc is listed on stock exchanges in London and New York.

For more information, visit www.btplc.com

BT Group plc
INTERIM MANAGEMENT REPORT

RESULTS FOR THE SECOND QUARTER TO 30 SEPTEMBER 2009

GROUP RESULTS
Operating results overview

Revenue was down 3% to £5,122m including favourable foreign exchange movements and the impact of acquisitions of £118m. Excluding these, underlying revenue decreased by 6% partly reflecting the challenging market conditions. Adjusted EBITDA increased by 2% to £1,436m reflecting progress in all lines of business driven by the delivery of cost savings. The sequential improvement in BT Global Services has continued with EBITDA of £95m, up 53% compared with the first quarter. Excluding BT Global Services, adjusted EBITDA for the rest of the group increased by 3%. Foreign exchange movements and acquisitions had a £20m negative impact on EBITDA. Other operating income decreased by £14m to £93m largely due to some non recurring items in the prior year.

Group operating costs decreased by 3% to £4,559m. Underlying group operating costs reduced by 9% primarily due to reductions in total labour costs and the delivery of other cost savings by all lines of business. Leaver costs were £21m (Q2 2008/09: £36m).

Our direct staff costs, on an underlying basis, decreased by 12% to £1,178m largely due to the impact of staff reductions and lower pension charges. Other operating costs, on an underlying basis, decreased by 9% to £1,606m principally due to reductions in indirect labour costs and discretionary expenditure. Total labour costs, on an underlying basis, decreased by 16%.

Total capital expenditure reduced by £208m to £558m reflecting improved procurement, better efficiency and management of capital expenditure and the timing of capital projects.

In total, underlying operating costs and capital expenditure reduced by £575m to £4,194m in the quarter, a reduction of 12%.

Depreciation and amortisation increased by 11% to £759m reflecting the impact of higher value and shorter lived software, Ethernet and ADSL2+ assets being brought into use.

Net finance expense

Net finance expense before specific items was £295m, an increase of £136m, due to the notional non-cash net pension interest expense under IAS 19 which increased by £148m. Net finance expense before specific items and net pension interest reduced by £12m.

Tax

The effective tax rate on the profit before specific items was 22.2% (Q2 2008/09: 23.7%), compared with the UK statutory rate of 28%, reflecting the continued focus on tax efficiency within the group and utilisation of tax losses.

Specific items

Specific items are defined in Note 5. Specific items in the quarter were a net credit after tax of £141m (Q2 2008/09: net charge £28m).

During the quarter we agreed substantially all outstanding tax matters with HM Revenue & Customs (HMRC) relating to the 2006, 2007 and 2008 tax years and received a tax repayment of £215m and associated interest of £11m.

In addition, a charge of £52m was recognised reflecting a recent Ofcom determination in relation to 2Mbps partial private circuits. Although we disagree with the determination and expect to appeal the decision, we have recognised the charge in the quarter. BT Global Services restructuring charges of £49m were also recognised relating to people and transformation costs (Q2 2008/09: nil). The total tax credit on these charges was £22m. The specific items of £38m recognised in the prior year related to the group's transformation and reorganisation activities.

Earnings per share

Adjusted EPS decreased by 8% to 4.5p largely due to the higher depreciation and amortisation expense. This is based on average shares in issue of 7,739m (Q2 2008/09: 7,697m). Reported EPS was 5.5p (Q2 2008/09: 4.9p). A reconciliation from reported EPS to adjusted EPS is provided in Note 10.

Cash flow

Free cash flow was an inflow of £705m, an increase of £336m compared with last year, reflecting the tax repayment and associated interest of £226m, improved working capital, and lower capital expenditure. Free cash flow is defined and reconciled in Note 11. Net cash inflow from our operating activities in the second quarter was £1,412m (Q2 2008/09: £1,223m). Net cash outflow for the purchase of property, plant and equipment and software was £555m (Q2 2008/09: £712m). The net cash outflow on acquisition of subsidiaries was £1m (Q2 2008/09: £93m).

Net debt and liquidity

Net debt was £9,878m at 30 September 2009 (30 September 2008: £11,028m), a reduction of £639m in the quarter. Net debt is defined and reconciled in Note 12.

As at 30 September 2009, we had undrawn committed facilities of £2.4bn which provide us with a strong liquidity and funding position. The group has no significant debt maturities until December 2010.

Pensions

The IAS 19 net pension position at 30 September 2009 was a deficit of £6.8bn net of tax (£9.4bn gross of tax), compared with a net deficit of £2.9bn at 31 March 2009 (£4.0bn gross of tax). The market value of the BT Pension Scheme assets has increased by £3.3bn since 31 March 2009 to £32.6bn at 30 September 2009. However, the value of the liabilities has increased to £41.9bn as a result of movements in bond yields and inflation expectations. The liability calculation is based on the AA bond yield of 5.45% (31 March 2009: 6.85%) and future inflation expectations of 3.1% (31 March 2009: 2.9%). This does not reflect a change in the underlying pension obligations, but rather a change in market rates for AA bonds and inflation expectations.

Outlook

With revenue down 1% in the first half we now expect a 3%-4% decline in revenue for the full year (previous outlook: down 4%-5%).

Even taking into account the acceleration of our fibre roll out, we now expect capital expenditure to reduce to around £2.6bn (previous outlook: around £2.7bn) for the full year due to increased efficiency. Total underlying cost reductions are now expected to be at least £1.5bn this year (previous outlook: well over £1bn).

Given the operational progress we are making and taking into account the cash tax repayments received in the first half of the year, we now expect to generate free cash flow (before gross pension deficit payments of £525m but after cash costs of BT Global Services restructuring) of at least £1.6bn this year (previous outlook: over £1bn). As a result net debt will be below £10bn at the end of 2009/10.

Reflecting the progress of the business the Board expects to increase the full year dividend for 2009/10 by around 5% over last year.

Dividends

Last year we rebased our dividend to a level that we were confident was sustainable. The Board believes that the operational improvements being achieved in the business will generate sufficient cash flow to allow the dividend to grow over time as well as allowing us to invest in the business, reduce debt and support the pension scheme. The Board is committed to delivering attractive returns for shareholders and has declared an interim dividend of 2.3p per share in respect of the 2009/10 financial year. This will be paid on 8 February 2010, to shareholders on the register on 29 December 2009. The ex-dividend date is 23 December 2009. The election date for participation in BT's Dividend Investment Plan in respect of this dividend is 29 December 2009.

OPERATING REVIEW
BT Global Services

	Second quarter to 30 September				Half year to 30 September	
	2009	2008[1]	Change		**2009**	2008[1]
	£m	£m	£m	%	**£m**	£m
Revenue	**2,024**	2,095	(71)	(3)	**4,103**	4,089
Net operating costs [2]	**1,929**	1,990	(61)	(3)	**3,946**	3,802
EBITDA	**95**	105	(10)	(10)	**157**	287
Depreciation & amortisation	**191**	171	20	12	**377**	352
Operating loss	**(96)**	(66)	(30)	(45)	**(220)**	(65)
Capital expenditure	**131**	213	(82)	(38)	**262**	458
Operating cash flow	**(94)**	(222)	128	58	**(553)**	(859)

[1] Restated for the impact of customer account moves and internal trading model changes.

[2] Net of other operating income.

Revenue

BT Global Services revenue decreased by 3% to £2,024m. Underlying revenue decreased by 8%, but adjusting for a major contract milestone in the prior year the decrease was 5%. This decline reflects the economic conditions, lower wholesale call volumes in continental Europe, mobile termination rate reductions, the continued decline in UK calls and lines and a decline in equipment sales.

Total order intake was £1.4bn, consistent with the first quarter, leading to a rolling 12 month order intake of £7.1bn. As previously stated, the market trend continues to be towards lower order values and longer lead times as customers delay decisions in the current economic climate. These trends and our focus on higher quality new business will lead to a lower order intake compared with the last financial year.

We continued to win contracts in our three key markets. In the UK we won significant contracts both in the public and private sectors, including Disclosure Scotland and William Hill. We are building on our relationships with our existing multi-national customers such as Emirates Airline, Solvay and Tommy Hilfiger. In the quarter we also won contracts with major customers in our non UK target markets, for example, with ProRail in the Netherlands and the Brazilian bank Bradesco.

We have again been recognised externally for both our capabilities and excellence in customer service being rated as “global leader of global leaders” in the Enterprise sector in a survey published by Ovum, with particularly strong results in product innovation and customer service.

Operating results

We have made progress with our cost saving initiatives delivering an 8% decrease in underlying operating costs. Adjusting for a major contract milestone in the prior year, the decrease was 6%. Total labour resource reduced by 1,600 in the quarter and is now 7,600 lower than at 30 September 2008. We have also re-negotiated better pricing through our procurement channels. Benefits from these actions are expected to flow through during the remainder of 2009/10 and beyond.

EBITDA increased to £95m compared with £62m in the first quarter and £32m* in the fourth quarter of last year, as a result of our progress in addressing the cost base. Depreciation and amortisation increased by 12% to £191m due to the adverse impact of foreign exchange movements and the timing of higher value and shorter lived software assets being brought into use. Overall this contributed to an operating loss of £96m.

Operating cash outflow was £128m better, largely due to improvements in capital expenditure and working capital more than offsetting the lower EBITDA.

* Before contract and financial review charges, and restated for the customer account moves and internal trading model changes.

BT Retail

	Second quarter to 30 September				Half year to 30 September	
	2009	2008[1]		Change	**2009**	2008[1]
	£m	£m	£m	%	**£m**	£m
Revenue	**2,062**	2,176	(114)	(5)	**4,172**	4,334
Net operating costs [2]	**1,587**	1,747	(160)	(9)	**3,221**	3,528
EBITDA	**475**	429	46	11	**951**	806
Depreciation & amortisation	**119**	102	17	17	**236**	202
Operating profit	**356**	327	29	9	**715**	604
Capital expenditure	**82**	117	(35)	(30)	**163**	244
Operating cash flow	**453**	253	200	79	**816**	422

[1] Restated for the impact of customer account moves and internal trading model changes.

[2] Net of other operating income.

Revenue

BT Retail revenue declined by 5% to £2,062m and by 6% on an underlying basis largely due to a reduction in calls and lines revenue. We continue to experience challenging market conditions arising from a combination of the current economic climate, particularly in the business market, and competitive pressure. This has contributed to a 6% and 8% decline in our Consumer and Business revenue, respectively.

Despite these pressures, annual consumer ARPU increased to £296, up £6 over the previous quarter as customers purchase more services from us. In the maturing broadband market BT's retail market share of the DSL and LLU installed base remained at 35%. Net additions were 72,000 in the quarter taking total broadband customers to 4.9m. BT's retail share of net additions was 43%.

Ofcom announced the de-regulation of the retail lines market during the quarter. This is a significant development giving us the freedom to compete more effectively and will allow us to offer a variety of bundles and discounts to our customers. We are also rolling out 20Mbps broadband, enabled by ADSL2+ technology, which substantially increases broadband speeds for our customers, at no extra charge. We also have our first customers using fibre based services in trial areas.

BT Vision net additions were 18,000 in the quarter, partly reflecting a seasonal slowdown in consumer demand during the holiday period. The customer base was 436,000 at 30 September 2009 after adjusting for a further cleanse of the database. We are seeing an improvement in the quality of the customer base with over 90% of new customers taking a subscription package during the quarter. The total number of views in the quarter was 34m, an increase of 14% from the first quarter, representing an average of 35 views per customer per month.

Within our Business division, the current economic climate is impacting our small and medium sized enterprises (SME) customer base, despite which our ICT revenue reduced by only 4%. We have recently announced the launch of an unlimited calls option to the BT Business One Plan package. We are the first UK communications provider to make this available to small businesses bringing certainty and value for money to the SME market.

Within our Enterprises division, our conferencing business performed well with a 19% increase in revenue (10% on an underlying basis) and several new contracts were secured during the quarter.

In July, BT Ireland signed a seven year contract with Vodafone in the Republic of Ireland for the provision of wholesale network services and transferred its consumer and SME voice and broadband customers to Vodafone.

Operating results

The decline in revenue and focus on cost control has driven a 9% reduction in net operating costs to £1,587m. This has been delivered through cost transformation programmes focused on labour productivity, systems rationalisation and supplier management across the business. The reduction in net operating costs also reflects the benefit of a one-off internal rebate of £15m relating to prior periods.

EBITDA increased by 11% to £475m, although excluding the one-off internal rebate the increase was 7%. This is in line with our expectation that the EBITDA growth rate will be mid single digits for the rest of the financial year.

Depreciation and amortisation increased by 17% to £119m due to higher value and shorter lived software assets being brought into use. Overall this contributed to operating profit of £356m, an increase of 9%.

Capital expenditure reduced by £35m due to improved procurement and better efficiency and management of capital expenditure. Operating cash flow was £200m higher due to improved cash collections from customers, higher EBITDA and lower capital expenditure.

BT Wholesale

	Second quarter to 30 September				**Half year to 30 September**	
	2009	2008[1]		Change	**2009**	2008[1]
	£m	£m	£m	%	**£m**	£m
Revenue	**1,125**	1,168	(43)	(4)	**2,267**	2,324
Net operating costs [2]	**797**	844	(47)	(6)	**1,619**	1,676
EBITDA	**328**	324	4	1	**648**	648
Depreciation & amortisation	**170**	172	(2)	(1)	**341**	342
Operating profit	**158**	152	6	4	**307**	306
Capital expenditure	**69**	119	(50)	(42)	**140**	239
Operating cash flow	**196**	318	(122)	(38)	**304**	363

[1] Restated for the impact of customer account moves and internal trading model changes.

[2] Net of other operating income.

Revenue

BT Wholesale revenue declined by 4% to £1,125m partly as a result of the impact of mobile termination rate reductions of £26m which have no impact on EBITDA. In addition, there were reductions in conveyance, circuits and international direct dial revenues. These declines were partially offset by continued growth in managed network solutions revenue, which grew by £72m to £180m and now represents 22% of external revenue (Q2 2008/09: 13%). We expect to see further declines in transit revenue during this financial year.

During the quarter we signed contracts with both Vodafone and O2 that expand our white label managed services business. The number of UK homes and businesses served by our white label platforms was 4.2m at 30 September 2009, up 24% compared with the prior year. In the first half of the year we signed managed network solutions deals worth over £1.4bn. As a result, the proportion of our revenue under contract is now 40% (Q2 2008/09: 32%).

Operating results

The lower revenue was offset by a reduction in net operating costs which declined by 6% to £797m. As a result, EBITDA increased by 1% to £328m. Depreciation and amortisation decreased by 1% to £170m contributing to an increase of 4% in operating profit to £158m.

Capital expenditure was £50m lower largely due to improved procurement and better efficiency and management of capital expenditure. Operating cash flow reduced by £122m primarily due to the timing of payments to other licensed operators and the timing of intra-group VAT settlements.

The roll out of our next generation broadband and Ethernet services, delivered over BT's 21st century network, continued during the quarter. Our Wholesale Ethernet service is now available from nearly 700 nodes, extending our market leading Ethernet footprint in the UK. This footprint will continue to be extended this financial year.

We have also announced our intention, subject to customer demand, to increase the availability of Wholesale Broadband Connect (our ADSL2+ supported 20Mbps broadband service) to 75% of UK homes and businesses by Spring 2011.

Openreach

	Second quarter to 30 September				Half year to 30 September	
	2009	2008		Change	**2009**	2008
	£m	£m	£m	%	**£m**	£m
External revenue	**299**	242	57	24	**579**	479
Revenue from other BT lines of business	**986**	1,061	(75)	(7)	**2,012**	2,130
Revenue	**1,285**	1,303	(18)	(1)	**2,591**	2,609
Net operating costs[1]	**778**	814	(36)	(4)	**1,581**	1,629
EBITDA	**507**	489	18	4	**1,010**	980
Depreciation & amortisation	**223**	189	34	18	**424**	373
Operating profit	**284**	300	(16)	(5)	**586**	607
Capital expenditure	**200**	230	(30)	(13)	**403**	457
Operating cash flow	**307**	277	30	11	**544**	533

[1] Net of other operating income.

Revenue

Total revenue decreased by 1% to £1,285m reflecting lower prices and a depressed housing market partially offset by growth in Ethernet services. External revenue increased by 24% reflecting the continued migration of lines to external communication providers.

Operating results

Net operating costs reduced by 4% to £778m primarily due to cost control and a reduction in total labour costs. This was achieved by process improvements and efficiencies, a reduction in the number of faults due to the improved quality of our network and lower levels of connection activity.

Our cost reduction activities have delivered a 4% increase in EBITDA despite the slight decline in total revenue. Depreciation and amortisation increased by £34m to £223m primarily due to higher value and shorter lived software assets being brought into use relating to the deployment of separate IT systems required by the Undertakings, and also our ongoing investment in systems to support new products and services. As a result, operating profit decreased by 5% to £284m.

Capital expenditure reduced to £200m due to lower connection activity in the housing market and our efficiency initiatives. This reduction was achieved despite investment in our fibre access network. During the quarter we connected the first end users in two ‘fibre to the cabinet’ pilot areas which offer speeds of up to 40Mbps. We also selected the first two ‘brownfield’ sites where we will trial our ‘fibre to the premise’ (FTTP) technology which has the capacity to deliver speeds of initially up to 100Mbps. Within our overall plan to make fibre based services available to around 10m premises by 2012, we recently announced that we are planning to increase the availability of the FTTP service to around 2.5m premises, more than double our original plans.

Operating cash flow increased by 11% to £307m. The increase in EBITDA and reduction in capital expenditure were partially offset by lower cash receipts due to the timing of collections from customers between quarters.

RESULTS FOR THE HALF YEAR TO 30 SEPTEMBER 2009

Operating results overview

Revenue was down 1% to £10,357m including favourable foreign exchange movements and the impact of acquisitions of £314m. Excluding these, underlying revenue decreased by 4% partly reflecting the challenging market conditions. Adjusted EBITDA decreased by 1% to £2,807m, being held back by BT Global Services performance particularly in the first quarter. Foreign exchange movements and acquisitions had a £20m negative impact on EBITDA. Other operating income decreased by £25m to £172m largely due to some non recurring items in the prior year.

Group operating costs decreased by 1% to £9,285m. Underlying group operating costs reduced by 6%. This was primarily due to reductions in total labour resource and the delivery of other cost saving initiatives by all lines of business. Leaver costs were £66m (HY 2008/09: £109m).

Our direct staff costs, on an underlying basis, decreased by 12% to £2,394m largely due to the impact of staff reductions and lower pension charges. The reduction in pension charges is a result of the implementation of the pensions benefit review changes from 1 April 2009. Other operating costs, on an underlying basis, decreased by 1% to £3,309m mainly due to lower contract costs capitalised in BT Global Services being more than offset by reductions in indirect labour costs and discretionary expenditure.

In total, underlying operating costs and capital expenditure reduced by £932m to £8,489m.

Depreciation and amortisation increased by 9% to £1,497m reflecting the impact of higher value and shorter lived software, Ethernet and ADSL2+ assets being brought into use.

Net finance expense

Net finance expense before specific items was £578m, an increase of £289m due to the notional non-cash net pension interest expense under IAS 19 which increased by £295m. Net finance expense before specific items and net pension interest reduced by £6m.

Specific items

Specific items in the half year were a net credit after tax of £111m (HY 2008/09: net charge £47m).

Tax

The effective tax rate on the profit before specific items was 22.2% (HY 2008/09: 23.6%).

Earnings per share

Adjusted EPS was 8.8p (HY 2008/09: 10.0p). This is based on average shares in issue of 7,737m (HY 2008/09: 7,714m). Reported EPS was 8.3p (HY 2008/09: 9.8p).

Cash flow

Free cash flow was an inflow of £583m, an increase of £948m reflecting the impact of lower working capital outflows, lower capital expenditure and the tax repayments. Net cash inflow from our operating activities in the half year was £2,251m (HY 2008/09: £1,610m). Net cash outflow for the purchase of property, plant and equipment and software was £1,233m (HY 2008/09: £1,548m). The net cash outflow on acquisition of subsidiaries in the half year was £13m (HY 2008/09: £187m).

Related party transactions

Transactions with related parties during the half year to 30 September 2009 are disclosed in Note 15.

Principal risks and uncertainties

We have processes for identifying, evaluating and managing our risks. Details of our principal risks and uncertainties can be found on pages 29 to 31 of the 2009 Annual Report & Form 20-F and are summarised below. All of them have the potential to impact our business, revenue, profits, assets and capital resources adversely.

- The risks arising from operating in highly competitive markets where customers can switch suppliers based on price and service levels as well as competitor activity;
- The risks associated with the downturn in the global economy;
- The risks associated with some of our activities being subject to significant price and other regulatory controls;
- The risks that our business may be adversely affected if we fail to perform on major customer contracts;
- The risk that there could be a significant failure or interruption of data transfer as a result of factors outside of our control; and
- The risks associated with funding a defined benefit pension scheme.

There have been no significant changes to the principal risks and uncertainties in the half year to 30 September 2009, some or all of which have the potential to impact our results or financial position during the remaining six months of the financial year.

FINANCIAL STATEMENTS

Group income statement

For the second quarter to 30 September 2009

	Notes	Before specific items £m	Specific items (Note 5) £m	Total £m
Revenue	2	5,122	(52)	**5,070**
Other operating income		93	-	**93**
Operating costs	4	(4,559)	(54)	**(4,613)**
Operating profit		656	(106)	**550**
Finance expense		(778)	-	**(778)**
Finance income		483	11	**494**
Net finance expense	6	(295)	11	**(284)**
Share of post tax profits of associates and joint ventures		9	-	**9**
Profit before tax		370	(95)	**275**
Tax		(83)	236	**153**
Profit for the period		287	141	**428**
Attributable to:				
Equity shareholders		287	141	**428**
Minority interests		-	-	**-**
Earnings per share	10			
- basic		3.7p		**5.5p**
- diluted		3.6p		**5.4p**

Group income statement

For the second quarter to 30 September 2008

	Notes	Before specific items £m	Specific items (Note 5) £m	Total[1] £m
Revenue	2	5,303	-	**5,303**
Other operating income		107	-	**107**
Operating costs	4	(4,724)	(38)	**(4,762)**
Operating profit		686	(38)	**648**
Finance expense		(821)	-	**(821)**

Finance income		662	-	**662**
Net finance expense	6	(159)	-	**(159)**
Share of post tax profits of associates and joint ventures		5	-	**5**
Profit before tax		532	(38)	**494**
Tax		(126)	10	**(116)**
Profit for the period		406	(28)	**378**
Attributable to:				
Equity shareholders		406	(28)	**378**
Minority interests		-	-	**-**
Earnings per share	10			
- basic		5.3p		**4.9p**
- diluted		5.2p		**4.9p**

[1]Restated - see Note 1 for details.

Group income statement

For the half year to 30 September 2009

	Notes	Before specific items £m	Specific items (Note 5) £m	Total £m
Revenue	2	10,357	(52)	**10,305**
Other operating income		172	-	**172**
Operating costs	4	(9,285)	(95)	**(9,380)**
Operating profit		1,244	(147)	**1,097**
Finance expense		(1,545)	-	**(1,545)**
Finance income		967	11	**978**
Net finance expense	6	(578)	11	**(567)**
Share of post tax profits of associates and joint ventures		17	-	**17**
Profit before tax		683	(136)	**547**
Tax		(152)	247	**95**
Profit for the period		531	111	**642**
Attributable to:				
Equity shareholders		531	111	**642**
Minority interests		-	-	**-**
Earnings per share	10			
- basic		6.9p		**8.3p**
- diluted		6.7p		**8.1p**

Group income statement

For the half year to 30 September 2008

	Notes	Before specific items £m	Specific items (Note 5) £m	Total[1] £m
Revenue	2	10,480	-	**10,480**
Other operating income		197	-	**197**
Operating costs	4	(9,338)	(65)	**(9,403)**
Operating profit		1,339	(65)	**1,274**
Finance expense		(1,617)	-	**(1,617)**
Finance income		1,328	-	**1,328**
Net finance expense	6	(289)	-	**(289)**
		6	-	**6**

Share of post tax profits of associates and joint ventures			
Profit before tax	1,056	(65)	**991**