

May 18, 2006

PRELIMINARY RESULTS – YEAR TO MARCH 31, 2006

FOURTH QUARTER HIGHLIGHTS

- Revenue of £5,134 million, up 7 per cent (5 per cent excluding acquisitions)
- New wave revenue of £1,851 million, up 28 per cent, represents 36 per cent of total revenue
- EBITDA before specific items¹ and leaver costs of £1,498 million, up 1 per cent
- Profit before taxation, specific items¹ and leaver costs of £629 million, up 4 per cent
- Earnings per share before specific items¹ and leaver costs of 5.7 pence, up 8 per cent, the sixteenth consecutive quarter of year on year growth
- Broadband net additions² of 0.8 million, of which BT Retail's share was 31 per cent

FULL YEAR HIGHLIGHTS

- Revenue of £19,514 million, up 6 per cent (3 per cent excluding the impact of reductions to mobile termination rates and acquisitions)
- New wave revenue of £6,282 million, up 38 per cent, represents 32 per cent of total revenue
- Profit before taxation and specific items¹ of £2,177 million, up 5 per cent
- Earnings per share before specific items¹ of 19.5 pence, up 8 per cent
- Free cash flow of £1,612 million and net debt reduced to £7.5 billion
- Full year dividend of 11.9 pence per share, up 14 per cent
- Broadband end users² of 7.9 million, at 31 March 2006, up 58 per cent

The income statement, cash flow statement and balance sheet, drawn up in accordance with IFRS, from which this information is extracted are set out on pages 16 to 22.

¹Specific items are material one off or unusual items as defined in note 4 on page 26.

²Includes DSL and LLU connections.

Chairman's statement

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

“This is an excellent set of full year results delivered in a competitive and fast-changing environment. Revenues for the full year have grown by 6 per cent; new wave revenues, which grew by 38 per cent to £6.3 billion, now represent around one third of the group's business. We have continued to transform the business at a fast pace whilst growing our earnings per share before specific items by 8 per cent to 19.5 pence.

“I am pleased to announce a full year dividend of 11.9 pence per share, 14 per cent higher than last year. We are confident in our ability to improve shareholder returns and accelerate the strategic transformation of the business.”

Chief Executive's statement

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

“This quarter's results are a terrific set of numbers. They show BT firing on all cylinders, with EBITDA*, revenue and earnings per share* all growing. These results provide further evidence that our strategy of embracing change is working. We have now delivered sixteen consecutive quarters of growth in earnings per share*.

“BT is now a truly global company, delivering services to more than 170 countries with more than 20 per cent of our networked IT services contract wins outside the UK. BT lines now carry 8 million broadband connections and we have started rolling out speeds of up to 8 Mbit/s.

“BT has changed very significantly from 4 years ago, and the transformation is accelerating.”

* before specific items and leaver costs

**RESULTS FOR THE FOURTH QUARTER AND YEAR ENDED
MARCH 31, 2006**

	Fourth quarter			Year		
	2006 £m	2005 £m	Better (worse) %	2006 £m	2005 £m	Better (worse) %
Revenue	5,134	4,820	7	19,514	18,429	6
EBITDA						
- before specific items and leaver costs	1,498	1,484	1	5,650	5,703	(1)
- before specific items	1,431	1,440	(1)	5,517	5,537	-
Profit before taxation						
- before specific items and leaver costs	629	604	4	2,310	2,246	3
- before specific items	562	560	-	2,177	2,080	5
- after specific items	507	577	(12)	2,040	2,354	(13)
Earnings per share						
- before specific items and leaver costs	5.7p	5.3p	8	20.6p	19.4p	6
- before specific items	5.1p	4.9p	4	19.5p	18.1p	8
- after specific items	4.7p	5.2p	(10)	18.4p	21.5p	(14)
Capital expenditure	973	744	(31)	3,142	3,011	(4)
Free cash flow	1,097	1,144	(4)	1,612	2,282 ⁽ⁱ⁾	(29)
Net debt				7,534	7,893	5

(i) Includes disposal proceeds of £537 million mainly from the sale of the Eutelsat, Intelsat and Starhub investments.

The commentary on the fourth quarter results focuses on the results before specific items and leaver costs. This is consistent with the way that financial performance is measured by management and we believe allows a meaningful analysis to be made of the trading results of the group. Specific items are defined in note 4 on page 26.

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

The income statement, cash flow statement and balance sheet are provided on pages 16 to 22. A reconciliation of EBITDA before specific items to group operating profit is provided on page 30. A definition and reconciliation of free cash flow and net debt are provided on pages 27 to 29.

GROUP RESULTS

Fourth quarter ended March 31, 2006

Revenue was 7 per cent higher at £5,134 million in the quarter with the continued strong growth of new wave revenue more than offsetting the decline in traditional revenue. Underlying revenue, adjusted for the acquisitions of Albacom and Infonet, was 5 per cent higher than last year. EBITDA before specific items and leaver costs showed growth of 0.9 per cent, compared to the decline of 0.6 per cent last quarter. This is the first quarter in the last eleven that has shown positive year on year growth and continues the improving trend of recent quarters. Earnings per share before specific items and leaver costs increased by 8 per cent to 5.7 pence, the sixteenth consecutive quarter of year on year growth.

The strong growth in new wave business has continued and at £1,851 million new wave revenue was 28 per cent higher than last year. New wave revenue is mainly generated from networked IT services, broadband and mobility. Networked IT services revenue grew by 22 per cent to £1,214 million, broadband revenue increased by 44 per cent to £421 million and mobility revenue increased by 41 per cent to £82 million. Excluding Albacom and Infonet, the organic growth in new wave revenue was 23 per cent.

Networked IT services contract wins were £1.1 billion in the fourth quarter and the value of total orders achieved over the last twelve months was £5.4 billion. Of this total more than 20 per cent of the order value was achieved outside the UK.

BT had 7.9 million wholesale broadband connections at March 31, 2006, including 356,000 local loop unbundled lines, an increase of 2.9 million connections year on year, with these connections available at up to 2Mbit/s. Continuing BT's commitment to delivering higher speed broadband, DSL Max, which offers speeds of up to 8Mbit/s across the UK, was launched on 31 March. BT is offering its wholesale customers DSL Max at no extra cost to the existing 2Mbit/s service. In upgrading more than 5,300 exchanges to support this service, BT is providing the UK market with the highest stable speed broadband service across the widest national footprint in the world.

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

Major corporate (UK and international) revenue showed continued strong growth of 14 per cent, with growth in new wave revenue of 24 per cent more than offsetting the decline in traditional services. Excluding the impact of Albacom and Infonet, revenue grew by 9 per cent. There is a continued migration from traditional voice only services to networked IT

services and an increase in mobility and broadband revenue. New wave revenue now represents 63 per cent of major corporate revenues.

Revenue from smaller and medium sized (SME) UK businesses declined by 2 per cent. New wave revenue grew by 12 per cent driven by continued growth in broadband and networked IT services. The number of BT Business Plan locations increased by 15 per cent to 513,000 by March 31, 2006. BT Business Plan now covers over 57 per cent of SME call revenues.

Consumer revenue in the fourth quarter was 4 per cent lower, although traditional consumer revenue declined by 10 per cent year on year. This demonstrates a strategic shift towards new wave products with an increase in revenue of 45 per cent in the quarter. New wave revenue now represents 15 per cent of the total.

The underlying 12 month rolling average revenue per consumer household (net of mobile termination charges) of £251 increased by £1 compared to last quarter, with increased broadband volumes more than offsetting lower call revenues. Contracted revenues were 67 per cent of the total, which is 4 percentage points higher than last year.

Wholesale (UK and Global Carrier) revenue increased by 14 per cent. UK Wholesale new wave revenue increased by 44 per cent to £298 million, mainly driven by broadband and managed services.

Group operating costs before specific items increased by 9 per cent year on year to £4,554 million, including the costs from Albacom and Infonet. Net staff costs before leaver costs, and net of own work capitalised, increased by £6 million to £986 million, reflecting higher capital expenditure in the quarter. Leaver costs were £67 million in the quarter (£44 million last year). Payments to other telecommunication operators increased by 14 per cent year on year at £1,015 million mainly due to the impact of Albacom and Infonet. Other operating costs before specific items increased by £211 million mainly due to increased costs of sales from both organic and inorganic growth in networked IT services, partly offset by cost savings from our efficiency programmes. Depreciation and amortisation increased by 4 per cent year on year to £773 million.

EBITDA before specific items and leaver costs increased by 0.9 per cent, compared to the decline of 0.6 per cent last quarter, continuing the improving trend seen during the year. Group operating profit before specific items and leaver costs decreased by 2 per cent to £725 million mainly as a result of the higher depreciation and amortisation.

Net finance costs were £101 million, an improvement of £40 million against last year. The net finance income associated with the group's defined benefit pension obligation of £63 million was £14 million higher than last year, which along with the reduction in the level of net

debt and the lower implied interest rate as a result of the bond repayments in December and February have all contributed to the decrease in net finance costs.

Profit before taxation, specific items and leaver costs increased by 4 per cent to £629 million with the reduction in net finance costs and an increase in the share of profits of associates and joint ventures offsetting the reduction in group operating profit.

The effective tax rate on the profit before specific items was 23.3 per cent (25.9 per cent last year). The effective tax rate reflects the continued focus on tax efficiency within the group.

Specific items

Specific items are defined in note 4 on page 26. There was a net charge before taxation of £55 million in the quarter (£17 million credit last year). Costs of £56 million relating to the rationalisation of the group's provincial office portfolio were incurred in the quarter (£29 million last year). This rationalisation programme is expected to continue throughout the next financial year giving rise to additional rationalisation costs. Also included in prior year specific items was a £46 million profit on disposal of the non current asset investment in Intelsat.

Specific items in the full year were a net charge before taxation of £137 million (£274 million net credit last year). This includes a £70 million provision relating to the incremental and directly attributable costs to create the new line of business, Openreach, required under the Undertakings agreed with Ofcom. Openreach will be reported as a separate line of business from the first quarter of next year. Property rationalisation costs for the full year were £68 million (£59 million last year). Also included in prior year specific items was a £358 million profit on disposal, mainly in respect of the sale of the non current asset investments in Eutelsat, Starhub and Intelsat.

Earnings per share after specific items were 4.7 pence in the quarter (5.2 pence last year) and 18.4 pence for the full year (21.5 pence last year).

Full year ended March 31, 2006

Revenue increased by 6 per cent in the year to £19,514 million (up 3 per cent excluding the impact of reductions in mobile termination rates and the acquisitions of Albacom and Infonet). The strong growth in new wave business has continued and at £6,282 million new wave revenue was 38 per cent higher than last year. This strong growth more than offset the decline in traditional revenue of 5 per cent.

We remain focused on financial discipline and our cost efficiency programmes achieved savings of over £400 million in the full year. This has enabled us to invest in further growing our new wave activities. We aim to deliver savings of at least £400 million in each of the next three years.

EBITDA before specific items was £5,517 million, which was flat compared to the prior year. Group operating profit before specific items at £2,633 million was 2 per cent lower than the prior year as a result of higher depreciation and amortisation.

Our share of profits of associates and joint ventures before specific items was £16 million (£14 million of losses last year).

Net finance costs were £472 million, an improvement of £127 million against last year. The net finance income associated with the group's defined benefit pension obligation of £254 million was £56 million higher than last year. Also included in the current year is a £27 million net gain arising from the fair value movements in, and realised gain arising from the early redemption of the US dollar 2008 LG Telecom convertible bond. The reduction in the level of debt compared to the prior year has also contributed to the decrease in net finance costs.

The group achieved a profit before taxation and specific items of £2,177 million, a 5 per cent increase, reflecting lower net finance costs and an increased share of profits from joint ventures and associates.

Earnings per share before specific items increased by 4 per cent to 5.1 pence.

The taxation charge for the year was £533 million on the profit before specific items, an effective tax rate of 24.5 per cent (26.0 per cent last year).

Earnings per share before specific items were 8 per cent higher at 19.5 pence for the year.

Cash flow and net debt

Net cash from operating activities in the fourth quarter amounted to £2,065 million, an increase of £146 million primarily as a result of a strong working capital performance and lower tax payments in the quarter. Free cash flow was a net inflow of £1,097 million in the fourth quarter compared to £1,144 million last year which included disposal proceeds of £62 million relating to the sale of the non current asset investment in Intelsat. The free cash flow for the full year amounted to £1,612 million compared to £2,282 million last year which included £537 million proceeds from the disposal of investments, mainly being Eutelsat, Intelsat and Starhub. Working capital improved by a further £120 million in the year following last years strong performance.

Cash flows from investing activities were a net cash inflow of £105 million in the fourth quarter compared to an outflow of £387 million last year. Net cash outflow relating to the acquisition of subsidiaries in the quarter was £55 million principally relating to the acquisition of Atlanet. This compares to an outflow of £418 million in the prior year which included the acquisitions of Infonet and Albacom. Interest received was £220 million lower principally due to the impact of swap restructuring in the prior year. The net proceeds of £933 million arising on the sale of investments was used to fund partly the repayment of maturing debt and the interim dividend. The net cash outflow from capital expenditure, net of disposal proceeds, amounted to £792 million in the quarter compared to £735 million last year.

Cash flows from financing activities were a net outflow of £1,399 million in the fourth quarter compared to £856 million last year. Interest paid was £147 million lower than last year due to the impact of swap restructuring in the prior year. In addition there was an increase of £619 million in net repayments of borrowings compared to the prior year. This is due to the repayment of maturing debt offset by the issue of an additional £1 billion of debt in the quarter.

The share buyback programme continued with the repurchase of 53 million shares in the quarter, taking the total value of shares repurchased in the year to £348 million. Net debt was £7,534 million at March 31, 2006, a reduction of £579 million in the quarter. Free cash flow and net debt are defined and reconciled in notes 7 and 8 on pages 27 to 29.

Dividends

The board recommends a final dividend of 7.6 pence per share to shareholders, amounting to £632 million. This will be paid, subject to shareholder approval, on September 11, 2006 to shareholders on the register on August 18, 2006. The ex-dividend date is August 16, 2006.

The full year proposed dividend has increased by 14 per cent to 11.9 pence per share, compared to 10.4 pence last year. This year's dividend pay out ratio is 61 per cent of earnings before specific items, compared to 57 per cent last year.

We continue with our progressive dividend policy. We expect our payout ratio to rise to around two thirds of underlying earnings in 2007/08.

Pensions

The IAS 19 net pension obligation at March 31, 2006 was a deficit of £1.8 billion, net of tax, being half the level at March 31, 2005. This reflects strong asset growth offset by the impact of longer life expectancy and lower discount rates. The BT Pension Scheme had assets of £36 billion at March 31, 2006. Detailed IAS 19 disclosures are provided in note 13 on pages 32 to 36.

The triennial funding valuation at December 31, 2005 is currently being performed and reviewed in the context of recent regulatory developments and the impact of the Crown Guarantee granted on privatisation in 1984.

21st Century Network

Contracts have been signed with the eight 21CN preferred suppliers and the first equipment orders have been placed against these contracts.

Building on the successful conclusion to the second phase of 21CN voice transformation trials on strategic equipment in December 2005, the next phase, the trial of telephone services over the IP network is scheduled to start before the end of May 2006.

Operational planning to migrate customers to the 21CN in Cardiff, which will see the first live operation of 21CN in November 2006, is well advanced. Following successful implementation in Cardiff, and following a comprehensive industry review, BT will proceed to a national migration programme. Through the communication forum Consult 21, BT, in close consultation with industry and Ofcom, is agreeing detailed migration plans for the entirety of the migration period.

Line of business results

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

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

Openreach

Openreach was launched on January 21, 2006. We will have completed the separation, configuration and implementation of financial reporting and operational systems to facilitate the reporting of the results of Openreach by the first quarter of the year ending March 31, 2007. This is in accordance with the timetable specified by the Undertakings.

On May 31, 2006 the Equality of Access Board, a board committee established by BT as required by the undertakings to Ofcom, will publish its first annual report on BT's compliance with and delivery of its Undertakings.

Outlook

Our performance underpins our confidence that we can continue to grow revenue, EBITDA, earnings per share and dividends over the coming year. Revenue growth will continue to be fuelled by new wave services; the EBITDA improvement will be driven by the continued growth in BT Retail's profitability and an acceleration through the year of the EBITDA growth in BT Global Services.

We are confident in our ability to improve shareholder returns and accelerate the strategic transformation of the business.

The Annual Report and Form 20-F is expected to be published on May 31, 2006. The Annual General Meeting of BT Group plc will be held at Barbican Centre, London on July 12, 2006.

BT Retail

	Fourth quarter ended March 31				Year ended March 31	
	2006	2005*	Better (worse)		2006	2005*
	£m	£m	£m	%	£m	£m
Revenue	<u>2,123</u>	<u>2,149</u>	(26)	(1)	<u>8,452</u>	<u>8,698</u>
Gross margin	613	597	16	3	2,354	2,354
SG&A before leaver costs	<u>391</u>	<u>385</u>	(6)	(2)	<u>1,541</u>	<u>1,576</u>
EBITDA before leaver costs	222	212	10	5	813	778
Leaver costs	<u>9</u>	<u>15</u>	6	40	<u>22</u>	<u>24</u>
EBITDA	213	197	16	8	791	754
Depreciation and amortisation	<u>38</u>	<u>38</u>	-	-	<u>147</u>	<u>147</u>
Operating profit	<u>175</u>	<u>159</u>	16	10	<u>644</u>	<u>607</u>
Capital expenditure	<u>53</u>	<u>54</u>	1	2	<u>153</u>	<u>170</u>

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

BT Retail's EBITDA before leaver costs was 5 per cent higher than last year. For the third consecutive quarter EBITDA has grown and the rate of revenue decline has slowed. Gross margins increased by 1.1 percentage points compared to the prior year due to improved margin management. This more than compensated for the 1 per cent decline in revenues. Combined with lower leaver costs, the improved performance has led to an increase in operating profit of 10 per cent to £175 million. Traditional revenue declined by 6 per cent whilst new wave revenue grew by 31 per cent, driven primarily by broadband and mobility. New wave revenue was 19 per cent of total revenue in the quarter, up from 14 per cent last year.

Broadband revenue grew by 35 per cent to £202 million with BT Retail connections at 31 March growing to 2,584,000, an increase of 11 per cent in the quarter. We achieved a 31 per cent market share of broadband net additions (DSL plus LLU) in the fourth quarter following the re-launch of the simplified broadband tariffs and updated advertising campaigns in October 2005. Consumer broadband net additions were 227,000 for the quarter, and we have seen a growing shift in the proportion of customers opting for higher value packages over the quarter.

Revenue from mobility services increased by 18 per cent to £39 million. BT Fusion, is still the only intelligent mobile service that switches calls seamlessly to a broadband line when the user is at home or in the office, offering customers the convenience of mobile in combination with the cost and quality advantages of a fixed-line phone. BT Fusion connections continue to rise following the launch of the market leading V3B (Motorola RAZR) handset and the launch of a BT Fusion proposition for the business market in February 2006. BT Fusion has now attracted over 30,000 connections since the launch.

We have had success with new value-added initiatives to our customer propositions. BT Privacy has more than 3.7 million registered customers, an increase of 30 per cent from last quarter. Following its launch in October 2005, more than one million customers have registered to have their Friends & Family calling circle automatically updated to ensure that the numbers they dial most frequently attract maximum discounts. BT Text service on fixed lines, with Tom Baker as the distinctive voice of BT Text until the end of April, has increased the volume of text messages sent by an impressive 530 per cent compared to the prior year. As at 31 March 2006, 268,000 BT customers were registered for the service and around 1.2 million text messages were being sent to landlines every week, a year on year increase of 145 per cent.

We are playing a lead role in the development of internet telephony or Voice over IP (VoIP), having a rich product offering including: BT Communicator, which enables customers to make voice calls over the internet using a PC or laptop; and Broadband Talk, enabling customers to make and receive broadband calls on a second line, using an ordinary touch-tone telephone.

We will shortly be introducing a range of converged next generation services to help make life simpler and better for our customers. At the heart of this will be the BT Hub, which will enable wireless networking for all the family's PCs and laptops, voice calls over broadband, video telephony, high definition voice, monitoring services and remote diagnostics. Work also continues on BT Vision, which is due to launch in the autumn.

BT Openzone is one of the leading providers of Wi-Fi services in the UK and Ireland. Recently awarded the Brainheart European Wi-Fi award in recognition of its contribution to the growth of the European Wi-Fi industry, we operate our own network of high quality sites and offer more wholesale and roaming connections than any other UK Wi-Fi network operator. We have already built the Openzone network in Westminster and Cardiff and have announced plans to Wi-Fi enable twelve further cities by the end of 2006. Our customers currently have access to more than 8,400 hotspots throughout the UK and Ireland and more than 30,000 globally.

BT Wholesale

	Fourth quarter ended March 31				Year ended March 31	
	2006 £m	2005* £m	Better (worse) £m %		2006 £m	2005* £m
External revenue	1,111	973	138	14	4,226	3,820
Internal revenue	<u>1,233</u>	<u>1,314</u>	(81)	(6)	<u>5,006</u>	<u>5,275</u>
Revenue	2,344	2,287	57	2	9,232	9,095
Variable cost of sales	<u>567</u>	<u>509</u>	(58)	(11)	<u>2,201</u>	<u>2,162</u>
Gross variable profit	1,777	1,778	(1)	-	7,031	6,933
Network and SG&A before leaver costs	<u>788</u>	<u>791</u>	3	-	<u>3,103</u>	<u>3,007</u>
EBITDA before leaver costs	989	987	2	-	3,928	3,926
Leaver costs	<u>26</u>	<u>3</u>	(23)	n/m	<u>34</u>	<u>62</u>
EBITDA	963	984	(21)	(2)	3,894	3,864
Depreciation and amortisation	<u>516</u>	<u>485</u>	(31)	(6)	<u>1,902</u>	<u>1,914</u>
Operating profit	<u>447</u>	<u>499</u>	(52)	(10)	<u>1,992</u>	<u>1,950</u>
Capital expenditure	<u>591</u>	<u>442</u>	(149)	(34)	<u>2,013</u>	<u>1,981</u>

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

BT Wholesale revenue in the fourth quarter of £2,344 million increased by 2 per cent, driven by external revenue growth of 14 per cent, reflecting strong revenue growth in broadband, wholesale line rental and managed network services. External revenue from new wave services increased by 44 per cent to £298 million and now accounts for 27 per cent of external revenue compared to 21 per cent last year.

Internal revenue declined by 6 per cent to £1,233 million due to the impact of lower volumes of calls and lines and lower regulatory prices being reflected in internal charges partially offset by strong growth from internal broadband revenue.

Gross variable profit at £1,777 million was flat, largely as a result of the change in sales mix and decline in traditional products. Cost savings have been more than offset by the significantly increased levels of activity in the network due to growth in broadband and local loop unbundling. Overall, this has delivered a £2 million increase in EBITDA before leaver costs. Increased leaver payments and higher depreciation as a result of the increased capital expenditure to prepare for the 21CN, have resulted in a 10 per cent decline in operating profit.

Capital expenditure in the quarter was 34 per cent higher than last year reflecting the increased investment in the 21CN and expenditure on new systems to ensure compliance with the Undertakings agreed with Ofcom for the creation of Openreach. Investment in legacy network technologies continues to be lower than last year.

Following successful end user trials, BT Movio, a wholesale service providing mobile operators with TV and radio channels to mobile handsets, is set for commercial launch later this year. BT Movio will provide consumers with a simple to use and reliable digital TV and radio service. In February we announced that Virgin will be the first mobile operator to offer the service to its customers.

BT Global Services

	Fourth quarter ended March 31				Year ended March 31	
	2006 £m	2005* £m	Better (worse) £m %		2006 £m	2005* £m
Revenue	2,369	2,160	209	10	8,632	7,488
EBITDA before leaver costs	332	316	16	5	1,050	1,020
Leaver costs	<u>21</u>	<u>15</u>	(6)	(40)	<u>49</u>	<u>59</u>
EBITDA	311	301	10	3	1,001	961
Depreciation and amortisation	<u>168</u>	<u>148</u>	(20)	(14)	<u>638</u>	<u>550</u>
Operating profit	<u>143</u>	<u>153</u>	(10)	(7)	<u>363</u>	<u>411</u>
Capital expenditure	<u>220</u>	<u>159</u>	(61)	(38)	<u>702</u>	<u>605</u>

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

BT Global Services generated strong revenue growth in the fourth quarter, increasing by 10 per cent to £2,369 million. Underlying growth, excluding acquisitions, was 5 per cent, driven by the continued expansion of networked IT services both in the UK and globally whilst traditional revenues continue to decline. Multi Protocol Label Switching (MPLS) grew 43 per cent year on year. Order intake remained healthy with networked IT services contract orders of £1.1 billion, resulting in orders of £5.4 billion over the last twelve months of which more than 20 per cent was generated outside the UK.

EBITDA before leaver costs increased year on year by £16 million. Further growth in new wave profitability, including the effect of the Infonet and Albacom acquisitions, more than offset the decline in EBITDA experienced in UK traditional products, including migration to IPVPNs sold to UK corporates and further reductions in dial IP due to broadband substitution. Higher depreciation costs, partly due to the acquisitions, together with higher leaver costs, resulted in a fall in operating profit of £10 million.

Capital expenditure in the quarter at £220 million rose by £61 million due to extra network investment outside the UK, including expenditure in Infonet and Albacom.

BT is playing a critical role in the transformation of patient care within the NHS. At the Royal Cornwall Hospitals NHS Trust in Truro, it introduced the first system of its kind in a UK

hospital that allows staff to contact each other instantly anywhere in the hospital through a voice-activated, wearable badge.

BT continues to build on its successes with its contracts for NHS National Programme for Information Technology. On N3, the NHS broadband network, BT had installed more than 14,000 connections at March 31, 2006 and is ahead of schedule to hit its target of 18,000 connections by March 2007.

Spine, the world's largest transactional database which facilitates the effective storage and management of electronic care records, had around 200,000 registered users at March 31, 2006.

As the London local service provider, BT has already delivered its first major acute patient administration system at Queen Mary's Hospital Sidcup, as well as community health systems to two primary care trusts. It has also completed 50 per cent of its roll out of Picture Archiving and Communications Systems - systems which enable X-rays and scans to be stored, displayed, transmitted and archived electronically, rather than being printed onto film – and has delivered 43 GP systems, two pharmacy stock control systems and two pathology systems.

GROUP INCOME STATEMENT
for the three months ended March 31, 2006

(unaudited)	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	5,134	-	5,134
Other operating income		78	-	78
Operating costs	3	<u>(4,554)</u>	<u>(56)</u>	<u>(4,610)</u>
Operating profit	2	658	(56)	602
Finance costs		(640)	-	(640)
Finance income		<u>539</u>	<u>-</u>	<u>539</u>
Net finance costs	5	(101)	-	(101)
Share of post tax profits of associates and joint ventures		5	-	5
Profit on disposal of joint venture		<u>-</u>	<u>1</u>	<u>1</u>
Profit before taxation		562	(55)	507
Taxation		<u>(131)</u>	<u>16</u>	<u>(115)</u>
Profit for the period attributable to equity shareholders		<u>431</u>	<u>(39)</u>	<u>392</u>
Attributable to:				
Equity shareholders		430	(39)	391
Minority interests		<u>1</u>	<u>-</u>	<u>1</u>
Earnings per share	6			
- basic		<u>5.1p</u>		<u>4.7p</u>
- diluted		<u>5.1p</u>		<u>4.6p</u>

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

(unaudited)	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	4,820	-	4,820
Other operating income		39	46	85
Operating costs	3	<u>(4,164)</u>	<u>(29)</u>	<u>(4,193)</u>
Operating profit	2	695	17	712
Finance costs		(689)	-	(689)
Finance income		<u>548</u>	<u>-</u>	<u>548</u>
Net finance costs	5	(141)	-	(141)
Share of post tax profits of associates and joint ventures		<u>6</u>	<u>-</u>	<u>6</u>
Profit before taxation		560	17	577
Taxation		<u>(145)</u>	<u>8</u>	<u>(137)</u>
Profit for the period attributable to equity shareholders		<u>415</u>	<u>25</u>	<u>440</u>
Earnings per share	6			
- basic		<u>4.9p</u>		<u>5.2p</u>
- diluted		<u>4.8p</u>		<u>5.1p</u>

GROUP INCOME STATEMENT
for the year ended March 31, 2006

	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	19,514	-	19,514
Other operating income		227	-	227
Operating costs	3	<u>(17,108)</u>	<u>(138)</u>	<u>(17,246)</u>
Operating profit	2	2,633	(138)	2,495
Finance costs		(2,740)	-	(2,740)
Finance income		<u>2,268</u>	<u>-</u>	<u>2,268</u>
Net finance costs	5	(472)	-	(472)
Share of post tax profits of associates and joint ventures		16	-	16
Profit on disposal of joint venture		<u>-</u>	<u>1</u>	<u>1</u>
Profit before taxation		2,177	(137)	2,040
Taxation		<u>(533)</u>	<u>41</u>	<u>(492)</u>
Profit for the year		<u>1,644</u>	<u>(96)</u>	<u>1,548</u>
Attributable to:				
Equity shareholders		1,643	(96)	1,547
Minority interests		<u>1</u>	<u>-</u>	<u>1</u>
Earnings per share	6			
- basic		<u>19.5p</u>		<u>18.4p</u>
- diluted		<u>19.2p</u>		<u>18.1p</u>

GROUP INCOME STATEMENT
for the year ended March 31, 2005

	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	18,429	-	18,429
Other operating income		193	358	551
Operating costs	3	<u>(15,929)</u>	<u>(59)</u>	<u>(15,988)</u>
Operating profit	2	2,693	299	2,992
Finance costs		(2,773)	-	(2,773)
Finance income		<u>2,174</u>	<u>-</u>	<u>2,174</u>
Net finance costs	5	(599)	-	(599)
Share of post tax losses of associates and joint ventures		<u>(14)</u>	<u>(25)</u>	<u>(39)</u>
Profit before taxation		2,080	274	2,354
Taxation		<u>(541)</u>	<u>16</u>	<u>(525)</u>
Profit for the year		<u>1,539</u>	<u>290</u>	<u>1,829</u>
Attributable to:				
Equity shareholders		1,540	290	1,830
Minority interests		<u>(1)</u>	<u>-</u>	<u>(1)</u>
Earnings per share	6			
- basic		<u>18.1p</u>		<u>21.5p</u>
- diluted		<u>17.9p</u>		<u>21.3p</u>

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended March 31, 2006

	Year ended March 31	
	2006	2005
	£m	£m
Profit for the year	<u>1,548</u>	<u>1,829</u>
Actuarial gains on defined benefit pension obligations	2,122	294
Net movement on cash flow hedges	(200)	-
Exchange differences on translation of foreign operations	24	27
Tax on items taken directly to equity	<u>(588)</u>	<u>(79)</u>
Net gains recognised directly in equity	<u>1,358</u>	<u>242</u>
Total recognised income for the year	<u>2,906</u>	<u>2,071</u>
Attributable to:		
Equity shareholders	2,905	2,072
Minority interests	<u>1</u>	<u>(1)</u>
	<u>2,906</u>	<u>2,071</u>

The group has adopted IAS 32 and IAS 39, with effect from April 1, 2005. The adoption of IAS 32 and IAS 39 has resulted in a decrease in equity at April 1, 2005 of £209 million (net of deferred tax), of which £nil was attributable to minority interests.

GROUP CASH FLOW STATEMENT
for the three months and year ended March 31, 2006

	Fourth quarter ended March 31		Year ended March 31	
	2006	2005	2006	2005
	(unaudited)			
	£m	£m	£m	£m
Cash flow from operating activities				
Cash generated from operations (note 7 (a))	2,138	2,076	5,777	5,906
Income taxes paid	<u>(73)</u>	<u>(157)</u>	<u>(390)</u>	<u>(332)</u>
Net cash inflow from operating activities	2,065	1,919	5,387	5,574
Cash flow from investing activities				
Net acquisition of subsidiaries, associates and joint ventures	(55)	(418)	(167)	(418)
Net purchase of property, plant, equipment and software	(792)	(735)	(2,874)	(2,945)
Interest received	19	239	185	374
Net sale of short term investments and non current asset investments	<u>933</u>	<u>527</u>	<u>3,221</u>	<u>1,249</u>
Net cash received (used) in investing activities	105	(387)	365	(1,740)
Cash flows from financing activities				
Repurchase of ordinary share capital	(106)	(63)	(339)	(193)
Net repayments of borrowings and derivatives	(740)	(121)	(2,946)	(1,292)
Interest paid	(195)	(342)	(1,086)	(1,260)
Equity dividends paid	<u>(358)</u>	<u>(330)</u>	<u>(907)</u>	<u>(784)</u>
Net cash used in financing activities	(1,399)	(856)	(5,278)	(3,529)
Effects of exchange rate changes	—	<u>20</u>	—	—
Net increase in cash and cash equivalents	<u>771</u>	<u>696</u>	<u>474</u>	<u>305</u>
Cash and cash equivalents at beginning of period	1,013	614	1,310	1,005
Cash and cash equivalents, net of bank overdrafts, at end of period (note 7 (c))	<u>1,784</u>	<u>1,310</u>	<u>1,784</u>	<u>1,310</u>
Free cash flow (note 7 (b))	<u>1,097</u>	<u>1,144</u>	<u>1,612</u>	<u>2,282</u>
Decrease in net debt from cash flows (note 8 (b))	<u>578</u>	<u>333</u>	<u>199</u>	<u>887</u>

GROUP BALANCE SHEET
at March 31, 2006

	March 31 2006 £m	March 31 2005 £m
Non current assets		
Goodwill and other intangible assets	1,641	1,254
Property, plant and equipment	15,489	15,391
Other non current assets	84	133
Deferred tax assets	<u>764</u>	<u>1,434</u>
	<u>17,978</u>	<u>18,212</u>
Current assets		
Inventories	124	106
Trade and other receivables	4,199	4,269
Other financial assets	434	3,634
Cash and cash equivalents	<u>1,965</u>	<u>1,312</u>
	<u>6,722</u>	<u>9,321</u>
Total assets	24,700	27,533
Current liabilities		
Loans and other borrowings	1,940	4,261
Trade and other payables	6,540	6,763
Other current liabilities	<u>1,000</u>	<u>1,080</u>
	<u>9,480</u>	<u>12,104</u>
Total assets less current liabilities	<u>15,220</u>	<u>15,429</u>
Non current liabilities		
Loans and other borrowings	7,995	7,744
Deferred tax liabilities	1,505	1,715
Retirement benefit obligations	2,547	4,807
Other non current liabilities	<u>1,566</u>	<u>1,068</u>
	<u>13,613</u>	<u>15,334</u>
Capital and reserves		
Called up share capital	432	432
Reserves	<u>1,123</u>	<u>(387)</u>
Total equity shareholders' funds	1,555	45
Minority interests	<u>52</u>	<u>50</u>
Total equity	<u>1,607</u>	<u>95</u>
	<u>15,220</u>	<u>15,429</u>

NOTES

1 Basis of preparation

The preliminary results for the year ended March 31, 2006 have been extracted from the audited consolidated financial statements which have not yet been delivered to the Registrar of Companies but are expected to be published on May 31, 2006.

The financial information set out in this announcement does not constitute statutory accounts for the year ended March 31, 2006 or 2005. The financial information for the year ended March 31, 2006 is derived from the statutory accounts for that year and the comparative financial information has been restated as a result of the adoption of International Financial Reporting Standards (IFRS) as described below. The report of the auditors on the statutory accounts for the year ended March 31, 2006 was unqualified and did not contain a statement under section 237 of the Companies Act 1985.

BT Group plc (the group) is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards as adopted for use by the European Union, with effect from April 1, 2005. On July 28, 2005 the group issued its first quarter results which also included appendices presenting and explaining the consolidated results of the group restated from UK GAAP onto an IFRS basis. It also includes details of the group's principal accounting policies under IFRS and the financial information set out in these preliminary results has been prepared in accordance with those accounting policies. The directors have applied those policies in the preparation of the consolidated financial statements for the year ended March 31, 2006. We have changed to a net basis of presentation for revenue arising from calls to certain of our premium rate services, further details of which are provided in note 12. The group has adopted IAS 39 and IAS 32 prospectively from April 1, 2005. The adoption of IAS 32 and IAS 39 has resulted in a decrease in equity at April 1, 2005 of £209 million, net of deferred tax.

2 Results of businesses

(a) Operating results – primary reporting segments

	External revenue £m	Internal revenue £m	Group revenue £m	EBITDA (ii) £m	Operating profit (loss) (ii) £m
<i>Fourth quarter ended</i>					
<i>March 31, 2006</i>					
BT Retail	2,032	91	2,123	213	175
BT Wholesale	1,111	1,233	2,344	963	447
BT Global Services	1,986	383	2,369	311	143
Other	5	-	5	(56)	(107)
Intra-group items (i)	-	(1,707)	(1,707)	-	-
Total	<u>5,134</u>	<u>-</u>	<u>5,134</u>	<u>1,431</u>	<u>658</u>
<i>Fourth quarter ended</i>					
<i>March 31, 2005</i>					
<i>(restated – see below)</i>					
BT Retail	2,066	83	2,149	197	159
BT Wholesale	973	1,314	2,287	984	499
BT Global Services	1,775	385	2,160	301	153
Other	6	-	6	(42)	(116)
Intra-group items (i)	-	(1,782)	(1,782)	-	-
Total	<u>4,820</u>	<u>-</u>	<u>4,820</u>	<u>1,440</u>	<u>695</u>
<i>Year ended</i>					
<i>March 31, 2006</i>					
BT Retail	8,119	333	8,452	791	644
BT Wholesale	4,226	5,006	9,232	3,894	1,992
BT Global Services	7,151	1,481	8,632	1,001	363
Other	18	-	18	(169)	(366)
Intra-group items (i)	-	(6,820)	(6,820)	-	-
Total	<u>19,514</u>	<u>-</u>	<u>19,514</u>	<u>5,517</u>	<u>2,633</u>
<i>Year ended</i>					
<i>March 31, 2005</i>					
<i>(restated – see below)</i>					
BT Retail	8,430	268	8,698	754	607
BT Wholesale	3,820	5,275	9,095	3,864	1,950
BT Global Services	6,154	1,334	7,488	961	411
Other	25	-	25	(42)	(275)
Intra-group items (i)	-	(6,877)	(6,877)	-	-
Total	<u>18,429</u>	<u>-</u>	<u>18,429</u>	<u>5,537</u>	<u>2,693</u>

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

(ii) Before specific items.

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

2 Results of businesses *continued*

(b) Revenue analysis

	Fourth quarter ended March 31				Year ended March 31	
	2006	2005	Better (worse)		2006	2005
	£m	£m	£m	%	£m	£m
Traditional	3,283	3,374	(91)	(3)	13,232	13,879
New wave	<u>1,851</u>	<u>1,446</u>	405	28	<u>6,282</u>	<u>4,550</u>
	<u>5,134</u>	<u>4,820</u>	314	7	<u>19,514</u>	<u>18,429</u>
Major Corporate	1,922	1,693	229	14	6,880	5,936
Business	587	601	(14)	(2)	2,324	2,442
Consumer	1,312	1,373	(61)	(4)	5,296	5,599
Wholesale/Carrier	1,308	1,147	161	14	4,996	4,427
Other	<u>5</u>	<u>6</u>	(1)	(17)	<u>18</u>	<u>25</u>
	<u>5,134</u>	<u>4,820</u>	314	7	<u>19,514</u>	<u>18,429</u>

(c) New wave revenue analysis

	Fourth quarter ended March 31				Year ended March 31	
	2006	2005	Better (worse)		2006	2005
	£m	£m	£m	%	£m	£m
Networked IT services	1,214	995	219	22	4,065	3,066
Broadband	421	292	129	44	1,459	930
Mobility	82	58	24	41	292	205
Other	<u>134</u>	<u>101</u>	33	33	<u>466</u>	<u>349</u>
	<u>1,851</u>	<u>1,446</u>	405	28	<u>6,282</u>	<u>4,550</u>

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

	Fourth quarter ended March 31				Year ended March 31	
	2006	2005	Better (worse)		2006	2005
	£m	£m	£m	%	£m	£m
BT Retail	53	54	1	2	153	170
BT Wholesale						
Access	227	225	(2)	(1)	950	1,036
Switch	5	14	9	64	32	100
Transmission	43	62	19	31	186	230
Products/systems support	<u>316</u>	<u>141</u>	(175)	(124)	<u>845</u>	<u>615</u>
	591	442	(149)	(34)	2,013	1,981
BT Global Services	220	159	(61)	(38)	702	605
Other (including fleet vehicles and property)	<u>109</u>	<u>89</u>	(20)	(22)	<u>274</u>	<u>255</u>
Total	<u>973</u>	<u>744</u>	(229)	(31)	<u>3,142</u>	<u>3,011</u>

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

3 Operating costs

	Fourth quarter ended March 31		Year ended March 31	
	2006 £m	2005 £m	2006 £m	2005 £m
Net staff costs ¹ before leaver costs	986	980	3,933	3,666
Leaver costs	<u>67</u>	<u>44</u>	<u>133</u>	<u>166</u>
Net staff costs	1,053	1,024	4,066	3,832
Depreciation and amortisation	773	745	2,884	2,844
Payments to telecommunication operators	1,015	893	4,045	3,725
Other operating costs	<u>1,713</u>	<u>1,502</u>	<u>6,113</u>	<u>5,528</u>
Total before specific items	4,554	4,164	17,108	15,929
Specific items (note 4)	<u>56</u>	<u>29</u>	<u>138</u>	<u>59</u>
Total	<u>4,610</u>	<u>4,193</u>	<u>17,246</u>	<u>15,988</u>

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

4 Specific items

BT will continue to separately identify and disclose any material one off or unusual items (termed “specific items”). This is consistent with the way that financial performance is measured by management and we believe assists in providing a meaningful analysis of the trading results of the group. “Specific items” may not be comparable to similarly titled measures used by other companies. Items which have been considered material one off or unusual in nature include disposals of businesses and investments, business restructuring and property rationalisation programmes. Specific items were previously referred to as exceptional items under UK GAAP.

	Fourth quarter ended March 31		Year ended March 31	
	2006 £m	2005 £m	2006 £m	2005 £m
Operating costs (income)				
Creation of Openreach	-	-	70	-
Property rationalisation costs	56	29	68	59
Profit on sale of non current asset investments	<u>-</u>	<u>(46)</u>	<u>-</u>	<u>(358)</u>
Specific net operating costs (income)	56	(17)	138	(299)
Impairment of assets in joint ventures	-	-	-	25
Profit on sale of joint ventures	<u>(1)</u>	<u>-</u>	<u>(1)</u>	<u>-</u>
Total specific items before tax	<u>55</u>	<u>(17)</u>	<u>137</u>	<u>(274)</u>

5 Net finance costs

	Fourth quarter ended March 31		Year ended March 31	
	2006	2005	2006	2005
	£m	£m	£m	£m
Finance costs ¹ before pension interest	186	259	924	1,053
Interest on pension scheme liabilities	<u>454</u>	<u>430</u>	<u>1,816</u>	<u>1,720</u>
Finance costs	<u>640</u>	<u>689</u>	<u>2,740</u>	<u>2,773</u>
Finance income ² before pension income	(22)	(69)	(198)	(256)
Expected return on pension scheme assets	<u>(517)</u>	<u>(479)</u>	<u>(2,070)</u>	<u>(1,918)</u>
Finance income	<u>(539)</u>	<u>(548)</u>	<u>(2,268)</u>	<u>(2,174)</u>
Net finance costs	<u>101</u>	<u>141</u>	<u>472</u>	<u>599</u>

¹Finance costs in the fourth quarter and year ended March 31, 2006 include a £4 million net credit and £8 million net charge, respectively, arising from the re-measurement of financial instruments which are not in hedging relationships on a fair value basis.

²Finance income for the year ended March 31, 2006 includes the fair value movement in, and realised gain arising from, the early redemption of the US dollar 2008 LG Telecom convertible bond amounting to £27 million.

6 Earnings per share

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

	Fourth quarter ended March 31		Year ended March 31	
	2006	2005	2006	2005
	Millions of shares	Millions of shares	Millions of shares	Millions of shares
Basic	8,354	8,493	8,422	8,524
Diluted	8,473	8,576	8,537	8,581

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

	Fourth quarter ended March 31		Year ended March 31	
	2006	2005	2006	2005
	£m	£m	£m	£m
Profit before tax	507	577	2,040	2,354
Depreciation and amortisation	773	745	2,884	2,844
Associates and joint ventures	(5)	(6)	(16)	39
Net finance costs	101	141	472	599
Profit on disposal of property assets and non current asset investments	-	(24)	-	(358)
Changes in working capital	705	620	120	253
Provisions movements, pensions and other	<u>57</u>	<u>23</u>	<u>277</u>	<u>175</u>
Cash generated from operations	<u>2,138</u>	<u>2,076</u>	<u>5,777</u>	<u>5,906</u>

7 (b) Free cash flow

	Fourth quarter ended March 31		Year ended March 31	
	2006	2005	2006	2005
	£m	£m	£m	£m
Cash generated from operations	2,138	2,076	5,777	5,906
Income taxes paid	<u>(73)</u>	<u>(157)</u>	<u>(390)</u>	<u>(332)</u>
Net cash inflow from operating activities	2,065	1,919	5,387	5,574
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	(792)	(735)	(2,874)	(2,945)
Net sale (purchase) of non current asset investments	-	62	(1)	537
Dividends received from associates	-	1	1	2
Interest received	19	239	185	374
Included in cash flows from financing activities				
Interest paid	<u>(195)</u>	<u>(342)</u>	<u>(1,086)</u>	<u>(1,260)</u>
Free cash flow	<u>1,097</u>	<u>1,144</u>	<u>1,612</u>	<u>2,282</u>

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

(c) Cash and cash equivalents

	At March 31	
	2006	2005
	£m	£m
Cash at bank and in hand	511	206
Short term deposits	<u>1,454</u>	<u>1,106</u>
Cash and cash equivalents	1,965	1,312
Bank overdrafts	<u>(181)</u>	<u>(2)</u>
	<u>1,784</u>	<u>1,310</u>

8 Net debt

Net debt at March 31, 2006 was £7,534 million (March 31, 2005 - £7,893 million.)

Net debt consists of borrowings less financial assets and cash and cash equivalents.

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

This definition of net debt measures balances at the future cash flows due to arise on maturity of financial instruments and removes the balance sheet adjustments made from the re-measurement of hedged risks under fair value hedges and the use of the amortised cost method that is required by IAS 39. In addition, the gross balances are adjusted to take account of netting arrangements. It is not a measure recognised under IFRS but is used by management in order to assess operational performance.

(a) Analysis

	At March 31	
	2006	2005
	£m	£m
Loans and other borrowings	9,935	12,005
Cash and cash equivalents	(1,965)	(1,312)
Other current financial assets ¹	(365)	(3,491)
	7,605	7,202
Adjustments:		
To retranslate currency denominated balances at swapped rates where hedged	121	691
To recognise investments and borrowings at net proceeds and unamortised discount	(192)	-
Net debt	<u>7,534</u>	<u>7,893</u>

After allocating the element of the adjustments which impact loans and other borrowings, gross debt at March 31, 2006 was £9,686 million (March 31, 2005 - £12,696 million).

¹Excluding derivative financial instruments of £69 million and £143 million at March 31, 2006 and March 31, 2005, respectively.

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

	Fourth quarter ended		Year ended	
	March 31		March 31	
	2006	2005	2006	2005
	£m	£m	£m	£m
Net debt at beginning of period	8,113	8,046	7,893	8,530
Decrease in net debt resulting from cash flows	(578)	(333)	(199)	(887)
Net debt assumed or issued on acquisitions	(1)	159	-	159
Currency movements	(10)	(18)	(75)	2
Other non-cash movements	10	39	(85)	89
Net debt at end of period	<u>7,534</u>	<u>7,893</u>	<u>7,534</u>	<u>7,893</u>

9 Changes in equity

	Year ended March 31	
	2006 £m	2005 £m
Shareholders' funds (deficit)	45	(1,085)
Minority interests	<u>50</u>	<u>46</u>
	95	(1,039)
Effect of adoption of IAS 32 and IAS 39 (net of deferred tax)	<u>(209)</u>	<u>-</u>
Deficit at beginning of year	(114)	(1,039)
Total recognised income for the year	2,906	2,071
Share based payments	65	20
Issues of shares	4	1
Net purchase of treasury shares	(344)	(176)
Dividends on ordinary shares	(912)	(786)
Movement in minority interest	<u>2</u>	<u>4</u>
Net changes in equity for the financial year	1,721	1,134
Equity at end of year		
Shareholders' funds	1,555	45
Minority interests	<u>52</u>	<u>50</u>
Total equity	<u>1,607</u>	<u>95</u>

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

	Fourth quarter ended March 31		Year ended March 31	
	2006 £m	2005 £m	2006 £m	2005 £m
Operating profit	602	712	2,495	2,992
Specific items (note 4)	56	(17)	138	(299)
Depreciation and amortisation (note 3)	<u>773</u>	<u>745</u>	<u>2,884</u>	<u>2,844</u>
EBITDA before specific items	<u>1,431</u>	<u>1,440</u>	<u>5,517</u>	<u>5,537</u>

Earnings before interest, taxation, depreciation and amortisation (EBITDA) before specific items is not a measure recognised under IFRS, but it is a key indicator used by management in order to assess operational performance.

11 Dividends

The directors recommend a final dividend of 7.6 pence per share (6.5 pence last year). This will be paid, subject to shareholder approval, on September 11, 2006 to shareholders who were on the register at August 18, 2006. This final dividend, amounting to £632 million (£551 million last year) has not been included as a liability as at March 31, 2006. It will be recognised as an appropriation of retained earnings within shareholders' equity in the quarter ended September 30, 2006. This takes the total proposed dividend in relation to the year to 11.9 pence per share (10.4 pence last year).

12 Change in presentation

The group has historically recognised all revenue arising from calls to our premium rate numbers on a gross basis, with amounts paid to the service providers recorded separately within operating costs. In light of the transition to IFRS and changing market practice we have reviewed the presentation of these arrangements. We have changed our presentation to a net basis for those calls where we provide basic transmission and connectivity services only. For calls where we add value by providing interactivity and a more significant and valuable part of the service, the associated revenue will continue to be reported on a gross basis.

Whilst reducing revenue and operating costs this change has had no impact on reported profit, cash flows or the balance sheet. The impact on revenue and operating costs was £64 million for the quarter and £235 million for the year ended March 31, 2006. The impact on revenue and operating costs was £50 million and £194 million for the fourth quarter and year ended March 31, 2005, respectively, as shown below.

Re-presentation of revenue for the fourth quarter and year ended March 31, 2005

	Fourth quarter ended March 31, 2005		Year ended March 31, 2005	
	As previously reported £m	As Adjusted £m	As previously reported £m	As Adjusted £m
Revenue by line of business				
BT Retail	2,080	2,066	8,490	8,430
BT Wholesale	973	973	3,820	3,820
BT Global Services	1,811	1,775	6,288	6,154
Other	<u>6</u>	<u>6</u>	<u>25</u>	<u>25</u>
	<u>4,870</u>	<u>4,820</u>	<u>18,623</u>	<u>18,429</u>
Revenue by product				
Traditional	3,424	3,374	14,073	13,879
New wave	<u>1,446</u>	<u>1,446</u>	<u>4,550</u>	<u>4,550</u>
	<u>4,870</u>	<u>4,820</u>	<u>18,623</u>	<u>18,429</u>
Revenue by line of business				
Consumer	1,382	1,373	5,637	5,599
Business	606	601	2,464	2,442
Major corporate	1,728	1,693	6,069	5,936
Wholesale/carrier	1,148	1,147	4,428	4,427
Other	<u>6</u>	<u>6</u>	<u>25</u>	<u>25</u>
	<u>4,870</u>	<u>4,820</u>	<u>18,623</u>	<u>18,429</u>

13 Pensions

The group offers retirement plans to its employees. The group's main scheme, the BT Pension Scheme (BTPS), is a defined benefit scheme where the benefits are based on employees' length of service and final pensionable pay. The BTPS is funded through a legally separate trustee administered fund. This scheme has been closed to new entrants since 31 March 2001 and replaced by a defined contribution scheme. Under this defined contribution scheme the income statement charge represents the contribution payable by the group based upon a fixed percentage of employees' pay. The total pension costs of the group in the year, included within the staff costs, in the year was £603 million (2005: £540 million), of which £552 million (2005: £507 million) related to the group's main defined benefit pension scheme, the BTPS.

The increase in the pension cost in the year principally reflects the introduction part way through the last year of Smart Pensions, a salary sacrifice scheme under which employees elect to stop making employee contributions and for the company to make additional contributions in return for a reduction in gross contractual pay.

The pension cost applicable to the group's main defined contribution scheme in the year ended 31 March 2006 was £19 million (2005: £11 million) and £2 million (2005: £1 million) of contributions to the scheme were outstanding at 31 March 2006.

The group occupies two properties owned by the BTPS scheme on which an annual rental of £2 million is payable. The BTPS assets are invested in UK and overseas equities, UK and overseas properties, fixed interest and index linked securities, deposits and short-term investments. At 31 March 2006, the UK equities included 15 million (2005: 17 million) ordinary shares of the company with a market value of £33 million (2005: £36 million).

IAS 19 accounting valuation

In accordance with the amendments to IAS 19 'Employee Benefits' the disclosures below are provided prospectively from last year. BT has applied the accounting requirements of IAS 19 as follows:

- scheme assets are measured at market value at the balance sheet date
- scheme liabilities are measured using a projected unit credit method and discounted at the current rate of return on high quality corporate bonds of equivalent term to the liability

13 Pensions *continued*

- actuarial gains and losses are recognised in full in the period in which they occur, outside of the income statement, in retained earnings and presented in the statement of recognised income and expense.

The financial assumptions used for the purpose of the actuarial accounting valuations of the BTPS under IAS 19 at March 31, 2006 are:

	Real rates (per annum)		Nominal rates (per annum)	
	2006	2005	2006	2005
	%	%	%	%
Rate used to discount liabilities	2.19	2.63	5.00	5.40
Average future increases in wages and salaries	0.75*	1.00	3.52	3.73
Average increase in pensions in payment and deferred pensions	-	-	2.75	2.70
Inflation – average increase in retail price index	-	-	2.75	2.70

* There is a short term reduction in the real salary growth assumption to 0.5% for the first three years.

The net pension obligation is set out below:

	At March 31, 2006			At March 31, 2005		
	Assets	Present value of liabilities	Deficit	Assets	Present value of liabilities	Deficit
	£m	£m	£m	£m	£m	£m
BTPS	35,550	38,005	2,455	29,550	34,270	4,720
Other schemes	<u>90</u>	<u>182</u>	<u>92</u>	<u>78</u>	<u>165</u>	<u>87</u>
	35,640	38,187	2,547	29,628	34,435	4,807
Deferred tax asset at 30%			<u>(764)</u>			<u>(1,434)</u>
Net pension obligation			<u>1,783</u>			<u>3,373</u>

Amounts recognised in the income statement on the basis of the above assumptions in respect of the defined benefit pension obligations are as follows:

	Year ended March 31	
	2006	2005
	£m	£m
Current service cost	<u>603</u>	<u>540</u>
Total operating charge	603	540
Expected return on pension scheme assets	(2,070)	(1,918)
Interest on pension scheme liabilities	<u>1,816</u>	<u>1,720</u>
Net finance income	<u>(254)</u>	<u>(198)</u>
Total amount charged to the income statement	<u>349</u>	<u>342</u>

Actuarial gains and losses have been recognised in the statement of recognised income and expense and the cumulative gain recognised is £2,416 million at March 31, 2006 (2005: £294 million). The actual return on plan assets was £6,925 million (2005: £3,582 million).

13 Pensions *continued*

Changes in the present value of the defined benefit pension obligation are as follows:

	At March 31	
	2006	2005
	£m	£m
Opening defined benefit pension obligation	(34,435)	(32,125)
Service cost	(568)	(507)
Interest cost	(1,816)	(1,720)
Contributions by employees	(21)	(50)
Actuarial losses	(2,733)	(1,370)
Obligation on acquisition of subsidiaries	–	(25)
Benefits paid	1,385	1,364
Exchange differences	<u>1</u>	<u>(2)</u>
Closing defined benefit pension obligation	<u>(38,187)</u>	<u>(34,435)</u>

The present value of the obligation is derived from long term cash flow projections and is thus inherently uncertain.

Changes in the fair value of plan assets are as follows:

	At March 31	
	2006	2005
	£m	£m
Opening fair value of plan assets	29,628	26,963
Expected return	2,070	1,918
Actuarial gains	4,855	1,664
Contributions by employer	452	382
Contributions by employees	21	50
Assets on acquisition of subsidiaries	–	15
Benefits paid	(1,385)	(1,364)
Exchange differences	<u>(1)</u>	<u>–</u>
Closing fair value of plan assets	<u>35,640</u>	<u>29,628</u>

The expected long term rate of return and fair values of the assets of the BTPS at 31 March were:

	At March 31, 2006			At March 31, 2005		
	Expected long-term rate of return (per annum) %	Asset fair value £bn %		Expected long-term rate of return (per annum) %	Asset fair value £bn %	
UK equities	7.4	9.9	28	8.0	9.6	32
Non-UK equities	7.4	12.5	35	8.0	9.0	30
Fixed-interest securities	4.9	5.6	16	5.4	4.6	16
Index-linked securities	4.1	3.2	9	4.4	2.8	10
Property	5.8	4.4	12	6.8	3.6	12
Cash and other	<u>4.0</u>	<u>–</u>	<u>–</u>	<u>4.0</u>	<u>–</u>	<u>–</u>
	<u>6.5</u>	<u>35.6</u>	<u>100</u>	<u>7.1</u>	<u>29.6</u>	<u>100</u>

13 Pensions *continued*

The assumption for the expected return in scheme assets is a weighted average based on the assumed expected return for each asset class and the proportions held of each asset class at the beginning of the year. The expected returns on fixed interest and interest linked securities are based on the gross redemption yields at the start of the year. Expected returns on equities and property are based on a combination of an estimate of the risk premium above, yields on government bonds and consensus economic forecasts of future returns. The long-term expected rate of return on investment does not affect the level of the deficit but does affect the expected return on pension scheme assets within the net finance income.

The history of experience gains and losses are as follows:

	At March 31	
	2006	2005
	£m	£m
Present value of defined benefit obligation	38,187	34,435
Less fair value of plan assets	<u>35,640</u>	<u>29,628</u>
Net pension obligation	<u>2,547</u>	<u>4,807</u>
Experience adjustment on defined benefit obligation	(527)	(437)
Percentage of the present value of the defined benefit obligation	1.4%	1.3%
Experience adjustment on plan assets	4,855	1,664
Percentage of the plan assets	13.6%	5.6%

The group expects to contribute approximately £630 million to BTPS, including £232 million of deficiency contributions, in the year ending March 31, 2007.

The mortality assumption has been updated to reflect experience and expected future improvements in life expectancy after retirement at 60 years of age. The average life expectancy assumptions are as follows:

	2006	2005
	Number of	Number of
	years	years
Male	23.8	23.3
Female	25.4	25.0
Future improvement every 10 years	1.0	0.5

13 Pensions *continued*

The assumed discount rate, salary increases and mortality all have a significant effect on the IAS 19 accounting valuation. The following table shows the sensitivity of the valuation to changes in these assumptions.

	Impact on deficit Increase (decrease) £bn
0.25 percentage point increase to:	
– discount rate	(1.4)
– salary increases	0.3
Additional 1.0 year increase to life expectancy	1.5

14 United States Generally Accepted Accounting Principles (US GAAP)

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

	Fourth quarter ended March 31		Year ended March 31	
	2006	2005	2006	2005
Net income attributable to shareholders (£m)	227	314	1,063	1,297
Earnings per ADS (£)				
- basic	0.27	0.37	1.26	1.52
- diluted	0.27	0.37	1.25	1.51

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

Shareholders' equity, calculated in accordance with US GAAP, is a £158 million deficit at March 31, 2006 (March 31, 2005 - £584 million deficit).

15 Reconciliation of UK GAAP to IFRS for comparative periods

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

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

Reconciliations of the group's results from UK GAAP to IFRS as at, and for the periods ended June 30, September 30 and December 31, 2004 were included in the first, second and third quarter results that were issued on July 28, 2005, November 10, 2005 and February 9, 2006, respectively, and are also available on the group's website at www.btplc.com/Sharesandperformance.

In this preliminary announcement the group is also presenting a reconciliation from UK GAAP to IFRS of the profit for the comparable financial period (the quarter ended March 31, 2005) together with the equity at the end of the comparable period (March 31, 2005).

(a) Reconciliation of profit between UK GAAP and IFRS

	Notes	Fourth quarter ended March 31 2005 £m
Profit attributable to shareholders under UK GAAP		435
Effect of transition to IFRS (net of deferred tax)		
Pensions	i	22
Goodwill	ii	4
Share based payments	iii	(6)
Leases	iv	(18)
Other		<u>3</u>
Profit attributable to shareholders under IFRS		<u>440</u>

(b) Reconciliation of equity between UK GAAP and IFRS

	Notes	At March 31 2005 £m
Total equity under UK GAAP		3,901
Effect of transition to IFRS (net of deferred tax)		
Pensions	i	(4,092)
Goodwill	ii	16
Share based payments	iii	7
Leases	iv	(288)
Dividends	v	<u>551</u>
Total equity under IFRS		<u>95</u>

i Pensions

Cumulative actuarial gains and losses in respect of the group's defined benefit pension schemes have been recognised in full on transition to IFRS (April 1, 2004). Actuarial gains and losses arising from the transition date are being recognised immediately in reserves, in accordance with the amended version of IAS 19 "Employee Benefits". The income statement charge is split between an operating charge and a net finance charge. The charge to operating costs in respect of pensions has increased by £17 million for the fourth quarter ended March 31, 2005 and net finance income has increased by £49 million for the fourth quarter ended March 31, 2005, giving rise to an overall increase in earnings of £32 million for the quarter ended March 31, 2005. The associated deferred tax benefit recognised in the income statement for the quarter ended March 31, 2005 was £10 million. A pension liability was recognised at March 31, 2005 of £4,807 million and associated deferred tax asset of £1,434 million. This was offset by the reversal of provisions and other creditors of £44 million. The pension prepayment of £1,118 million on the UK GAAP balance sheet has also been reversed including the associated deferred tax liability of £329 million. The net effect has been a reduction in shareholders' funds of £4,092 million.

ii Goodwill

The group has used the exemption available under IFRS 1 for not restating business combinations. IFRS 3 "Business Combinations" requires that goodwill arising from business combinations should not be amortised. Accordingly, the UK GAAP goodwill amortisation charge of £4 million for the quarter ended March 31, 2005 has been reversed. There is no tax impact.

iii Share based payments

Under IFRS 2 "Share based payment", an expense must be recognised in the income statement for all share based payments. This expense is based on the fair value at the date of the award, using an option pricing model, and is charged to the income statement over the related performance period. This has resulted in an increased operating charge for the quarter ended March 31, 2005 of £8 million. The credit entry for the share based payments is recognised directly in reserves as the awards are equity settled, therefore there is no overall impact on shareholders' equity. The associated deferred tax benefit recognised in the income statement for the quarter ended March 31, 2005 was £2 million.

iv Leases

Under IAS 17 "Leases" the buildings element of a small number of properties have been reclassified from operating leases under UK GAAP to finance leases under IFRS, and lease rentals under the group's sale and operating leaseback transactions are recognised on a straight line basis. For those properties reclassified as finance leases, profit before tax for the quarter ended March 31, 2005 has been reduced by £3 million as a result of the recognition of depreciation and finance lease interest expense and the removal of the UK GAAP operating lease charges. Recognising the operating lease charges on a straight line basis has further reduced profit before tax for the quarter ended March 31, 2005 by £22 million. The associated deferred tax benefit recognised in the income statement for the quarter ended March 31, 2005 was £7 million.

iv Leases *continued*

Those properties reclassified as finance leases have been capitalised and are included within property, plant and equipment at the lower of the present value of the minimum lease payments or the fair value of the lease asset, which was £90 million at March 31, 2005. The associated finance lease obligation has also been recognised, being £107 million at March 31, 2005. The excess of the sales proceeds over the previous carrying value has been deferred, and will be recognised in the income statement over the lease term. The deferred gain recognised in deferred income at March 31, 2005 was £42 million. Where the operating lease rentals are recognised on a straight line basis, the difference between the amounts recognised in the income statement and the lease payments is recognised in other payables, and amounted to £352 million at March 31, 2005. A deferred tax liability of £123 million at March 31, 2005 has been recognised. The net effect of the above has been a reduction in equity of £288 million at March 31, 2005.

v Dividends

Under UK GAAP the dividend charge was recognised in the profit and loss account in the period to which it related. Under IFRS, dividends are not recognised in the income statement but directly within reserves. The final dividend is recognised only when it has been declared and approved by the company in a general meeting. Therefore the final dividend liability of £551 million has been reversed because it was paid after March 31, 2005.

Forward-looking statements – caution advised

Certain statements in this results release are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: continued growth in earnings per share and dividends; growth in new wave revenue, mainly from networked IT services, broadband and mobility growth; EBITDA improvement, and acceleration of EBITDA growth in BT Global Services; implementation of BT's 21st Century Network and the national migration programme; expectations regarding progressive dividend policy, dividend payout ratio and cost savings; improving shareholder returns; and accelerating transformation of the business.

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

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