

HIGHLIGHTS

- Revenue of £4,783 million, up 5 per cent
- New wave revenue of £1,385 million, up 48 per cent
- Group operating profit before specific items¹ of £648 million, up 10 per cent
- Profit before taxation and specific items¹ of £511 million, up 20 per cent
- Earnings per share before specific items¹ of 4.5 pence, up 25 per cent
- Net debt² of £8,121 million, 4 per cent lower than previous year, including additional finance lease liabilities recognised under IFRS
- Broadband end users of 5.6 million at June 30, 2005

The results presented today represent the first time adoption of International Financial Reporting Standards (IFRS) as described in note 1 on page 17. Accordingly 2004/05 comparatives have been restated. Details of the impact of the transition to IFRS can be found in Appendix A. The income statement, cash flow statement and balance sheet, drawn up in accordance with IFRS, from which this information is extracted are set out on pages 12 to 16.

Chief Executive's statement

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

“This has been a great first quarter and builds on the momentum we have seen gathering for more than a year.

“Revenue grew by 5 per cent in the quarter and earnings per share grew by 25¹ per cent. We have achieved real international success. We won global networked IT services orders of £2.4 billion in the quarter which takes orders for the last twelve months to a record level of more than £8 billion – a terrific achievement. In the UK, in a highly competitive market, we have launched a number of innovative services such as BT Fusion, a world first that delivers all the benefits of a fixed line from a mobile phone.

“The transformation of the business is delivering real value to our customers and shareholders.”

¹Before specific items which are material one off or unusual items as defined in note 4 on page 21.

²Net debt is defined in note 8 on page 23.

RESULTS FOR THE FIRST QUARTER ENDED JUNE 30, 2005

	First quarter		Better (worse) %	Year ended
	2005 £m	2004 £m		March 31 2005 £m
Revenue	4,783	4,567	5	18,623
EBITDA				
- before specific items and leaver costs	1,363	1,389	(2)	5,703
- before specific items	1,357	1,287	5	5,537
Profit before taxation				
- before specific items and leaver costs	517	527	(2)	2,246
- before specific items	511	425	20	2,080
- after specific items	499	411	21	2,354
Earnings per share				
- before specific items and leaver costs	4.6p	4.5p	2	19.4p
- before specific items	4.5p	3.6p	25	18.1p
- after specific items	4.4p	3.5p	26	21.5p
Capital expenditure	716	694	(3)	3,011
Free cash flow	(126)	159	n/m	2,290
Net debt	8,121	8,422	4	7,893

The commentary focuses on the results before specific items and leaver costs. This is consistent with the way that financial performance is measured by management and we believe allows a meaningful analysis to be made of the trading results of the group. Specific items are defined in note 4 on page 21.

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

The income statement, cash flow statement and balance sheet are provided on pages 12 to 16. A reconciliation of EBITDA to group operating profit is provided on page 25. A reconciliation of net debt is provided on page 24.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

IFRS will apply for the first time to the group's annual report for the year ending March 31, 2006. Consequently, the group's results for each of the quarters of this year will be prepared under IFRS.

Details of the impact of adopting IFRS are set out in Appendix A. The principal differences between IFRS and UK GAAP were set out in a press release issued on March 21, 2005 and were disclosed in the Financial Review of the Annual Report and Form 20-F published on June 1, 2005. There are no additional significant reconciling differences.

In the first quarter ended June 30, 2005 earnings per share as reported under IFRS were 4.4 pence compared to 4.3 pence under the previous UK GAAP.

In the comparative period ended June 30, 2004 earnings per share under IFRS were 3.5 pence compared to the 3.6 pence previously reported under UK GAAP.

Net debt at June 30, 2005 of £8,121 million includes the recognition of finance lease liabilities of £107 million in relation to a small number of properties previously classified as operating leases under UK GAAP.

GROUP RESULTS

Revenue was 5 per cent higher at £4,783 million in the quarter with strong growth of new wave revenue more than offsetting the decline in traditional revenue. Underlying revenue, adjusted for the impact of Albacom, Infonet and the mobile termination rate reductions, was 3 per cent higher than last year. Earnings per share before specific items increased by 25 per cent to 4.5 pence.

The strong growth in new wave revenue continued and at £1,385 million was 48 per cent higher than last year. New wave revenue accounted for 29 per cent of the group's revenue compared to 20 per cent in the first quarter of last year. Excluding Albacom and Infonet, the organic growth in new wave revenue was 31 per cent. New wave revenue is mainly generated from networked IT services, broadband and mobility. Networked IT services revenue grew by 43 per cent to £904 million, broadband revenue increased by 69 per cent to £314 million and mobility revenue at £61 million achieved growth of 42 per cent.

Networked IT services contract wins were £2.4 billion in the first quarter, including a contract with the Ministry of Defence expected to be worth up to £1.5 billion over seven years. Total orders achieved over the last twelve months were a record £8.2 billion. BT had 5.6 million wholesale broadband connections at June 30, 2005, more than doubling in the year. BT

Mobile had 370,000 contract mobile connections at June 30, 2005, an increase of 72 per cent in the customer base from last year.

Revenue from the group's traditional businesses declined by 6 per cent (4 per cent excluding the impact of reductions to mobile termination rates and Albacom). This was a reduction in the rate of decline compared to last year but continues to reflect regulatory intervention, competition, price reductions and also technological changes that we are using to drive customers from traditional services to new wave services, such as broadband and Internet Protocol Virtual Private Networks (IPVPN).

Consumer revenue in the first quarter was 6 per cent lower (5 per cent lower excluding the impact of reductions to mobile termination rates). New wave consumer revenue increased by 67 per cent, driven by the continuing growth of broadband and mobility.

Traditional consumer revenue declined by 11 per cent year on year (9 per cent lower excluding the impact of reductions to mobile termination rates) reflecting the continued impact of Carrier Pre-Selection (CPS), wholesale line rental (WLR) and broadband substitution.

The underlying 12 month rolling average revenue per consumer household (net of mobile termination charges) of £254 declined by £2 compared to last quarter, with increased broadband volumes more than offset by lower call revenues. Contracted revenues increased by 2 percentage points to 65 per cent compared to last quarter, 6 percentage points higher than last year.

Revenue from smaller and medium sized (SME) UK businesses declined by 5 per cent (3 per cent excluding the impact of reductions to mobile termination rates). New wave revenue grew by 26 per cent driven by continued growth in broadband and networked IT services. The number of BT Business Plan locations increased by 66 per cent against last year to 489,000 by June 30, 2005, an increase of 10 per cent in the quarter. BT Business Plan continues to grow successfully covering over 50 per cent of BT's SME call revenue.

Major corporate (UK and international) revenue showed strong growth of 14 per cent compared to the first quarter of last year, with strong growth in new wave revenue (43 per cent) more than offsetting the decline in traditional services. Excluding the impact of Albacom and Infonet, new wave revenue grew by 18 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 55 per cent of all major corporate revenue.

Wholesale (UK and Global Carrier) revenue increased by 12 per cent (17 per cent excluding the impact of reductions to mobile termination rates and Albacom). UK Wholesale

new wave revenue increased by 77 per cent to £230 million, mainly driven by broadband and managed services.

Our estimate of market share by volume of fixed to fixed voice minutes is based on our actual minutes, market data provided by Ofcom and an extrapolation of the historical trends. BT's estimated UK consumer market share declined by 1.4 percentage points compared to last quarter to around 61 per cent whilst the estimated business market share declined by 0.3 percentage points to around 41 per cent.

Group operating costs before specific items increased by 4 per cent year on year at £4,177 million, including the costs from Albacom and Infonet. Net staff costs before leaver costs increased by £67 million to £965 million due mainly to the acquisitions of Albacom and Infonet. Leaver costs were £6 million in the quarter (£102 million last year). Payments to other telecommunication operators declined by 2 per cent year on year at £971 million with the reduction in mobile termination rates partially offset by the impact of Albacom and Infonet. Other operating costs before specific items increased by £193 million mainly due to increased costs of sales from both organic and inorganic growth in networked IT services. These were partly offset by cost savings from our efficiency programmes. Depreciation and amortisation increased by 1 per cent year on year to £709 million.

Group operating profit before specific items increased by 10 per cent to £648 million. Operating profit margins increased by 0.6 percentage points to 13.5 per cent due to the reduction in leaver costs year on year.

Net finance costs were £142 million, an improvement of £13 million against last year, reflecting the higher net finance income associated with the group's defined benefit pension scheme which was £63 million in the first quarter compared to £50 million last year. Net finance costs included a £12 million charge arising from the mark to market of financial instruments which are not in hedging relationships.

Profit before taxation and specific items of £511 million increased by 20 per cent compared to last year.

The effective tax rate on the profit before specific items was 25.2 per cent (26.6 per cent last year). The effective tax rate reflects tax efficient investment of surplus cash and continued improvements in the tax efficiency within the group.

Earnings per share before specific items increased by 25 per cent to 4.5 pence.

Specific items

There was a net charge before taxation of £12 million in the quarter (£17 million last year) arising from further rationalisation of the group's provincial office portfolio. This rationalisation programme is expected to continue throughout the year giving rise to additional rationalisation costs. Specific items are defined in note 4 on page 21.

Earnings per share after specific items were 4.4 pence in the quarter (3.5 pence last year).

Cash flow and net debt

Net cash from operating activities in the first quarter amounted to £841 million compared to £1,167 million last year. This reduction was a result of higher working capital outflows and tax payments in the first quarter of this year.

Cash flows from investing activities were a net cash outflow of £887 million in the first quarter compared to £690 million last year. This reflects the cash consideration on acquisitions of £87 million, which relates mainly to Radianz.

Cash flows from financing activities were a net outflow of £353 million in the first quarter compared to £562 million last year. This reduction is due to the timing of the maturity of borrowings in the prior year.

Free cash flow was a net outflow of £126 million in the first quarter compared to a net inflow of £159 million last year mainly reflecting the working capital outflow and higher tax payments. The share buyback programme continued with the repurchase of 10 million shares for £21 million. Net debt was £8,121 million at June 30, 2005, £301 million below the level at June 30, 2004. Free cash flow and net debt are defined in notes 7 and 8 on pages 22 to 24.

21st Century Network

BT's plans for its 21st Century Network progressed during the quarter. In April 2005 BT announced the eight preferred suppliers that will help build a 21st Century converged core network, and is currently concluding contractual discussions with these vendors.

Line of business results

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.

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

BT's final dividend of 6.5 pence per share will be paid on September 5, 2005 to shareholders on the register on August 5, 2005.

The second quarter and half year's results are expected to be announced on November 10, 2005.

BT Retail

	First quarter ended June 30				Year ended
	2005	2004*	Better (worse)		March 31
	£m	£m	£m	%	2005*
					£m
Revenue	<u>2,119</u>	<u>2,199</u>	(80)	(4)	<u>8,758</u>
Gross margin	563	582	(19)	(3)	2,354
Sales, general and administration costs	<u>390</u>	<u>399</u>	9	2	<u>1,600</u>
EBITDA	173	183	(10)	(5)	754
Depreciation and amortisation	<u>34</u>	<u>38</u>	4	11	<u>147</u>
Operating profit	<u>139</u>	<u>145</u>	(6)	(4)	<u>607</u>
Operating profit before leaver costs	<u>142</u>	<u>151</u>	(9)	(6)	<u>631</u>
Capital expenditure	<u>35</u>	<u>31</u>	(4)	(13)	<u>170</u>

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

New wave revenue grew by 52 per cent but was more than offset by the traditional revenue decline of 9 per cent. Overall revenue declined by 4 per cent (2 per cent excluding the impact of reductions to mobile termination rates).

Revenue from traditional services was 9 per cent lower than last year (7 per cent excluding the impact of reductions to mobile termination rates). The reduction includes the effects of continued high levels of migration to new wave services such as broadband and IPVPN, which is reflected in a fall of over 35 per cent in dial up internet minutes and a reduction in ISDN lines. In addition, there has been a 2 per cent decline in the overall fixed to fixed calls market and a reduction in market share from competitive pressure.

BT Retail's new wave revenue increased by 52 per cent compared to last year and accounted for 14 per cent of BT Retail's total revenue in the quarter, up from 9 per cent last year.

Broadband revenue grew by 55 per cent to £161 million. The growth of broadband continues with 1,940,000 BT Retail connections at June 30, 2005, an increase of 11 per cent in the quarter. Net additions of 188,000 resulted in a 28 per cent share of the broadband DSL additions in the quarter. Our programme to upgrade customers to high speed services at no extra cost continues with a further 355,000 BT Business and consumer customers upgraded to speeds up to 2Mbit/s in the quarter.

BT Retail has recently announced its intention to use the Microsoft TV, IPTV Edition software platform to deliver TV over Broadband in the UK. Trials of TV over broadband begin in early 2006 with plans to deliver a commercial service later in the same year. The combination of BT's 21st Century Network with Microsoft's best-in-class technology will result

in an exciting set of next generation entertainment and communication services available to consumers across the UK.

Revenue from mobility services increased by 112 per cent to £36 million. In June we announced the launch of BT Fusion, the world's first combined fixed and mobile phone service, enabling customers to use a single device that can switch seamlessly between fixed and mobile networks. The service starts with approximately 400 early adopter customers, and already 15,000 have registered an interest, with the service being widely available for delivery in September.

Networked IT services revenue increased by 38 per cent compared to the first quarter of last year as a result of new contracts achieved in the UK SME market, and the acquisition of BIC Systems in Ireland last year.

The gross margin percentage improved by 0.1 percentage points compared to last year with improvements in both new wave and traditional margins.

Cost transformation programmes contributed to SG&A savings of £10 million in the traditional business. However, this was partly offset by a £4 million increase of investment in new wave activities (including new entertainment products and mobility convergence products). A further £3 million of leaver costs were incurred in the quarter, compared to £6 million last year.

Overall these results led to an operating profit in the quarter of £139 million which is 4 per cent lower than last year.

BT Wholesale

	First quarter ended June 30				Year ended March 31
	2005 £m	2004* £m	Better (worse) £m %		2005* £m
External revenue	1,021	941	80	9	3,820
Internal revenue	<u>1,283</u>	<u>1,332</u>	(49)	(4)	<u>5,275</u>
Revenue	2,304	2,273	31	1	9,095
Variable cost of sales	<u>556</u>	<u>553</u>	(3)	(1)	<u>2,162</u>
Gross variable profit	1,748	1,720	28	2	6,933
Network and SG&A costs	<u>755</u>	<u>789</u>	34	4	<u>3,069</u>
EBITDA	993	931	62	7	3,864
Depreciation and amortisation	<u>457</u>	<u>479</u>	22	5	<u>1,914</u>
Operating profit	<u>536</u>	<u>452</u>	84	19	<u>1,950</u>
Operating profit before leaver costs	<u>536</u>	<u>510</u>	26	5	<u>2,012</u>
Capital expenditure	<u>487</u>	<u>477</u>	(10)	(2)	<u>1,981</u>

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

BT Wholesale revenue of £2,304 million increased by 1 per cent driven by external revenue growth of 9 per cent (underlying growth is 18 per cent excluding the impact of regulatory reductions to mobile termination rates). The growth continues to be driven by new wave services, mainly broadband and managed services, increasing by 77 per cent to £230 million. Revenue from new wave services now accounts for 23 per cent of external revenue compared to 14 per cent in the first quarter of last year.

Internal revenue has declined by 4 per cent to £1,283 million due to the impact of lower volumes of calls and lines and lower regulatory prices being reflected in internal charges, which is partially offset by strong growth from internal broadband revenue.

Gross variable profit of £1,748 million is 2 per cent higher than the first quarter last year reflecting volume increases and a favourable change in sales mix with broadband growth more than offsetting the decline in traditional products.

A combination of cost reductions, lower leaver costs and higher revenue in the quarter has resulted in the EBITDA increase of 7 per cent and operating profit increase of 19 per cent. Cost savings for the quarter have been partly offset by increased levels of activity in the network mainly due to growth in broadband and local loop unbundling.

Capital expenditure in the quarter is 2 per cent higher than last year as a result of expenditure to support the continuing growth in broadband and the transformation of the group's network that has more than offset a reduction in investment in legacy network technologies.

BT Global Services

	First quarter ended June 30				Year ended
	2005	2004*	Better (worse)		March 31
	£m	£m	£m	%	2005*
Revenue	2,072	1,760	312	18	7,622
EBITDA	233	193	40	21	961
Operating profit	81	62	19	31	411
Operating profit before leaver costs	83	95	(12)	(13)	470
Capital expenditure	142	144	2	1	604

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

BT Global Services revenue for the quarter rose by 18 per cent to £2,072 million, with growth from the acquisitions of Albacom and Infonet in addition to the continuing trend for above market organic growth that has been consistently seen in previous quarters. Underlying growth, excluding Albacom and Infonet, was 6 per cent. Corporate revenues grew by 16 per cent supported by Multi Protocol Label Switching (MPLS) with a year on year increase of 20 per cent. Carrier revenue grew by 32 per cent as a result of higher international voice traffic and terminations in Europe together with additional revenues from Albacom. Order intake remained strong with networked IT services contract orders of £2.4 billion taken in the quarter resulting in record orders of £8.2 billion over the last twelve months.

EBITDA before leaver costs increased by £9 million giving growth of 4 per cent which would have been 5 per cent on the previous UK GAAP basis. Operating profit for the quarter rose by £19 million from the previous year to £81 million. We expect the underlying cost efficiency in BT Global Services to continue to improve.

Capital expenditure in the quarter at £142 million decreased by £2 million despite increased spend from the acquisitions. Operating free cash flow (EBITDA less capital expenditure) at £91 million is almost double last year's level.

GROUP INCOME STATEMENT
for the three months ended June 30, 2005

(unaudited)	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	4,783	-	4,783
Other operating income		42	-	42
Operating costs	3	<u>(4,177)</u>	<u>(12)</u>	<u>(4,189)</u>
Operating profit (loss)	2	648	(12)	636
Net finance costs	5	(142)	-	(142)
Share of post tax profits of associates and joint ventures		<u>5</u>	<u>-</u>	<u>5</u>
Profit (loss) before taxation		511	(12)	499
Taxation		<u>(129)</u>	<u>4</u>	<u>(125)</u>
Profit (loss) after taxation and attributable to shareholders		<u>382</u>	<u>(8)</u>	<u>374</u>
Earnings per share	6			
- basic		<u>4.5p</u>		<u>4.4p</u>
- diluted		<u>4.5p</u>		<u>4.4p</u>

GROUP INCOME STATEMENT
for the three months ended June 30, 2004

(unaudited)	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	4,567	-	4,567
Other operating income		41	-	41
Operating costs	3	(4,021)	(17)	(4,038)
Profit on sale of non current asset investments		<u>-</u>	<u>3</u>	<u>3</u>
Operating profit (loss)	2	<u>587</u>	<u>(14)</u>	<u>573</u>
Net finance costs	5	(155)	-	(155)
Share of post tax losses of associates and joint ventures		<u>(7)</u>	<u>-</u>	<u>(7)</u>
Profit (loss) before taxation		425	(14)	411
Taxation		<u>(113)</u>	<u>4</u>	<u>(109)</u>
Profit (loss) after taxation and attributable to shareholders		<u>312</u>	<u>(10)</u>	<u>302</u>
Earnings per share	6			
- basic		<u>3.6p</u>		<u>3.5p</u>
- diluted		<u>3.6p</u>		<u>3.5p</u>

GROUP INCOME STATEMENT
for the year ended March, 31, 2005

(unaudited)	Notes	Before specific items £m	Specific items (note 4) £m	Total £m
Revenue	2	18,623	-	18,623
Other operating income		193	-	193
Operating costs	3	(16,123)	(59)	(16,182)
Profit on sale of non current asset investments		-	<u>358</u>	<u>358</u>
Operating profit	2	<u>2,693</u>	299	<u>2,992</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 period		<u>1,539</u>	<u>290</u>	<u>1,829</u>
Attributable to:				
Equity shareholders		1,540	290	1,830
Minority interest		<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 CASH FLOW STATEMENT
for the three months ended June 30, 2005

(unaudited)	First quarter ended June 30		Year ended
	2005	2004	March 31
	£m	£m	2005
			£m
Cash flows from operating activities			
Cash generated from operations (note 7 (a))	972	1,208	5,906
Income taxes paid	<u>(131)</u>	<u>(41)</u>	<u>(332)</u>
Net cash inflow from operating activities	841	1,167	5,574
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)	(87)	(2)	(426)
Net (acquisition) sales of associates and joint ventures	(1)	-	8
Net purchase of property, plant, equipment and software	(686)	(729)	(2,945)
Interest received	37	55	374
Receipt of dividends from associates and joint ventures	-	-	2
Net sale of non current asset investments	-	23	537
Net (purchase) sale of short term investments	<u>(150)</u>	<u>(37)</u>	<u>710</u>
Net cash used in investing activities	(887)	(690)	(1,740)
Cash flows from financing activities			
Repurchase of ordinary share capital	(21)	(31)	(193)
Net repayments of borrowings	(14)	(174)	(1,300)
Interest paid	(318)	(357)	(1,252)
Equity dividends paid	<u>-</u>	<u>-</u>	<u>(784)</u>
Net cash used in financing activities	(353)	(562)	(3,529)
Effects of exchange rate changes	<u>29</u>	<u>(26)</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	<u>(370)</u>	<u>(111)</u>	<u>305</u>
Cash and cash equivalents at beginning of period	1,310	1,005	1,005
Cash and cash equivalents, net of bank overdrafts, at end of period (note 7 (c))	<u>940</u>	<u>894</u>	<u>1,310</u>
Free cash flow (note 7 (b))	(126)	159	2,290
Increase (decrease) in net debt from cash flows (note 8)	235	(126)	(895)

GROUP BALANCE SHEET
at June 30, 2005

(unaudited)	June 30 2005 £m	June 30 2004 £m	March 31 2005 £m
Non current assets			
Goodwill and other intangible assets	1,343	607	1,259
Property, plant and equipment	15,431	15,159	15,386
Other non current assets	184	462	133
Deferred tax assets	<u>1,460</u>	<u>1,541</u>	<u>1,434</u>
	<u>18,418</u>	<u>17,769</u>	<u>18,212</u>
Current assets			
Inventories	124	111	106
Trade and other receivables	4,210	4,135	4,269
Other financial assets	3,866	4,316	3,634
Cash and cash equivalents	<u>1,177</u>	<u>899</u>	<u>1,312</u>
	<u>9,377</u>	<u>9,461</u>	<u>9,321</u>
Total assets	27,795	27,230	27,533
Current liabilities			
Loans and other borrowings	4,626	1,066	4,261
Trade and other payables	5,722	6,200	6,772
Other current liabilities	<u>1,284</u>	<u>552</u>	<u>1,020</u>
	<u>11,632</u>	<u>7,818</u>	<u>12,053</u>
Total assets less current liabilities	<u>16,163</u>	<u>19,412</u>	<u>15,480</u>
Non current liabilities			
Loans and other borrowings	8,094	11,868	7,744
Deferred tax liabilities	1,586	1,755	1,715
Retirement benefit obligations	4,867	5,136	4,781
Other non current liabilities	<u>1,489</u>	<u>1,406</u>	<u>1,145</u>
	<u>16,036</u>	<u>20,165</u>	<u>15,385</u>
Capital and reserves			
Called up share capital	432	432	432
Reserves	(354)	(1,231)	(387)
Total equity shareholders' funds (deficit)	78	(799)	45
Minority interest	<u>49</u>	<u>46</u>	<u>50</u>
Total equity	<u>127</u>	<u>(753)</u>	<u>95</u>
	<u>16,163</u>	<u>19,412</u>	<u>15,480</u>

NOTES (unaudited)

1 Basis of preparation and accounting policies

These primary statements and selected notes comprise the unaudited interim consolidated financial results of BT Group plc for the quarters ended June 30, 2005 and 2004, together with the unaudited results for the year ended March 31, 2005. These interim financial results do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985. Statutory accounts for the year ended March 31, 2005 were approved by the Board of Directors on May 18, 2005 and published on June 1, 2005. The auditor's report on those accounts was unqualified and did not contain any statement under Section 237 of the Companies Act 1985.

Previously the group prepared its audited annual financial statements and unaudited quarterly results under UK Generally Accepted Accounting Principles (UK GAAP). From April 1, 2005 the group is required to present its annual consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU).

The rules for the first time adoption of IFRS are set out in IFRS 1 "First Time Adoption of International Financial Reporting Standards". In preparing these interim consolidated financial results, the group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of IFRS. These are detailed in Appendix A.

These unaudited group results for the three months to June 30, 2005 have been prepared on a basis consistent with the accounting policies set out in Appendix B based on the IFRS which are expected to be applicable as at March 31, 2006. These IFRS are subject to ongoing review and possible amendment or interpretative guidance and therefore are still subject to change. These policies also assume that the amendments to IAS 19 "Employee Benefits" published by the International Accounting Standards Board, allowing actuarial gains and losses to be recognised in full through reserves, will be endorsed by the EU. In addition, the accounting policies applicable to IAS 39 "Financial Instruments: Recognition and Measurement" will not be impacted by the elements carved out of the EU endorsement, and hence the group will comply with the full version of IAS 39. These interim financial results have been prepared under the historical cost convention, except in respect of certain financial assets and liabilities.

As permitted, the group has chosen not to adopt IAS 34 "Interim Financial Statements", and therefore these interim financial results are not in full compliance with IFRS.

1 Basis of preparation and accounting policies *continued*

An explanation of how the transition from UK GAAP to IFRS has affected the group's financial position and reported performance is set out in Appendix A.

2 Results of businesses

(a) Operating results

	External revenue £m	Internal revenue £m	Group revenue £m	Group operating profit (loss) (ii) £m	EBITDA (ii) £m
<i>First quarter ended</i>					
<i>June 30, 2005</i>					
BT Retail	2,040	79	2,119	139	173
BT Wholesale	1,021	1,283	2,304	536	993
BT Global Services	1,716	356	2,072	81	233
Other	6	-	6	(108)	(42)
Intra-group items (i)	-	(1,718)	(1,718)	-	-
Total	<u>4,783</u>	<u>-</u>	<u>4,783</u>	<u>648</u>	<u>1,357</u>
<i>First quarter ended</i>					
<i>June 30, 2004</i>					
<i>(restated – see below)</i>					
BT Retail	2,146	53	2,199	145	183
BT Wholesale	941	1,332	2,273	452	931
BT Global Services	1,473	287	1,760	62	193
Other	7	-	7	(72)	(20)
Intra-group items (i)	-	(1,672)	(1,672)	-	-
Total	<u>4,567</u>	<u>-</u>	<u>4,567</u>	<u>587</u>	<u>1,287</u>
<i>Year ended March 31, 2005</i>					
<i>(restated – see below)</i>					
BT Retail	8,490	268	8,758	607	754
BT Wholesale	3,820	5,275	9,095	1,950	3,864
BT Global Services	6,288	1,334	7,622	411	961
Other	25	-	25	(275)	(42)
Intra-group items (i)	-	(6,877)	(6,877)	-	-
Total	<u>18,623</u>	<u>-</u>	<u>18,623</u>	<u>2,693</u>	<u>5,537</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

	First quarter ended June 30				Year ended
	2005	2004	Better (worse)		March 31
	£m	£m	£m	%	£m
Traditional	3,398	3,631	(233)	(6)	14,073
New wave	<u>1,385</u>	<u>936</u>	449	48	<u>4,550</u>
	<u>4,783</u>	<u>4,567</u>	216	5	<u>18,623</u>
Consumer	1,334	1,425	(91)	(6)	5,637
Business	591	623	(32)	(5)	2,464
Major Corporate	1,630	1,424	206	14	6,069
Wholesale/Carrier	1,222	1,088	134	12	4,428
Other	<u>6</u>	<u>7</u>	(1)	(14)	<u>25</u>
	<u>4,783</u>	<u>4,567</u>	216	5	<u>18,623</u>

(c) New wave revenue analysis

	First quarter ended June 30				Year ended
	2005	2004	Better (worse)		March 31
	£m	£m	£m	%	£m
Networked IT services	904	634	270	43	3,066
Broadband	314	186	128	69	930
Mobility	61	43	18	42	205
Other	<u>106</u>	<u>73</u>	33	45	<u>349</u>
	<u>1,385</u>	<u>936</u>	449	48	<u>4,550</u>

2 Results of businesses *continued*

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

	First quarter ended June 30		Year ended
	2005	2004	March 31 2005
	£m	£m	£m
BT Retail	35	31	170
BT Wholesale			
Access	257	269	1,037
Switch	10	30	100
Transmission	46	45	230
Products/systems support	<u>174</u>	<u>133</u>	<u>614</u>
	487	477	1,981
BT Global Services	142	144	604
Other (including fleet vehicles and property)	<u>52</u>	<u>42</u>	<u>256</u>
Total	<u>716</u>	<u>694</u>	<u>3,011</u>

3 Operating costs

	First quarter ended June 30		Year ended
	2005	2004	March 31 2005
	£m	£m	£m
Net staff costs before leaver costs	965	898	3,666
Leaver costs	<u>6</u>	<u>102</u>	<u>166</u>
Net staff costs	971	1,000	3,832
Depreciation and amortisation	706	700	2,844
Amortisation of acquired intangibles	3	-	-
Payments to telecommunication operators	971	988	3,725
Other operating costs	<u>1,526</u>	<u>1,333</u>	<u>5,722</u>
Total before specific items	4,177	4,021	16,123
Specific items (note 4)	<u>12</u>	<u>17</u>	<u>59</u>
Total	<u>4,189</u>	<u>4,038</u>	<u>16,182</u>

4 Specific items

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

	First quarter ended June 30		Year ended
	2005	2004	March 31
	£m	£m	2005
			£m
Operating costs			
Property rationalisation costs	12	17	59
Profit on sale of non current asset investments	<u>-</u>	<u>(3)</u>	<u>(358)</u>
Specific operating costs	12	14	(299)
Impairment of assets in joint ventures	<u>-</u>	<u>-</u>	<u>25</u>
Total specific items before taxation	<u>12</u>	<u>14</u>	<u>(274)</u>

5 Net finance costs

	First quarter ended June 30		Year ended
	2005	2004	March 31
	£m	£m	2005
			£m
Finance costs ¹	262	262	1,053
Finance income	<u>(57)</u>	<u>(57)</u>	<u>(256)</u>
Net finance costs before pension finance income	205	205	797
Pension finance income	<u>(63)</u>	<u>(50)</u>	<u>(198)</u>
Net finance costs	<u>142</u>	<u>155</u>	<u>599</u>

¹ Finance costs in the quarter ended June 30, 2005 include a £12 million charge arising from the re-measurement of financial instruments, which are not in hedging relationships, on a fair value basis.

6 Earnings per share

The basic earnings per share are calculated by dividing the profit attributable to shareholders by the average number of shares in issue after deducting the company's shares held by employee share ownership trusts 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:

	First quarter ended June 30		Year ended
	2005	2004	March 31 2005
	millions of shares		
Basic	8,471	8,557	8,524
Diluted	8,556	8,597	8,581

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

	First quarter ended June 30		Year ended
	2005	2004	March 31 2005
	£m	£m	£m
Profit before tax	499	411	2,354
Depreciation and amortisation	709	700	2,844
Net finance costs	142	155	599
Profit on disposal of non current asset investments	-	(3)	(358)
Changes in working capital	(453)	(139)	253
Provision movements, pensions and other	<u>75</u>	<u>84</u>	<u>214</u>
Cash generated from operations	<u>972</u>	<u>1,208</u>	<u>5,906</u>

(b) Free cash flow

	First quarter ended June 30		Year ended
	2005	2004	March 31 2005
	£m	£m	£m
Cash generated from operations	972	1,208	5,906
Income taxes paid	<u>(131)</u>	<u>(41)</u>	<u>(332)</u>
Net cash inflow from operating activities	841	1,167	5,574
Included in cash flows from investing activities			
Net purchase of property, plant, equipment and software	(686)	(729)	(2,945)
Net sale of non current asset investments	-	23	537
Dividends received from associates	-	-	2
Interest received	37	55	374
Included in cash flows from financing activities			
Interest paid	<u>(318)</u>	<u>(357)</u>	<u>(1,252)</u>
Free cash flow	<u>(126)</u>	<u>159</u>	<u>2,290</u>

7 (b) Free cash flow *continued*

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 June 30		At March 31
	2005	2004	2005
	£m	£m	£m
Cash at bank and in hand	438	144	206
Short term deposits	<u>739</u>	<u>755</u>	<u>1,106</u>
Cash and cash equivalents	1,177	899	1,312
Bank overdrafts	<u>(237)</u>	<u>(5)</u>	<u>(2)</u>
	<u>940</u>	<u>894</u>	<u>1,310</u>

8 Net debt

Net debt at June 30, 2005 was £8,121 million (June 30, 2004 - £8,422 million, March 31, 2005 - £7,893 million).

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

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

8 Net debt *continued*

(a) Analysis

	At June 30		At March 31
	2005	2004	2005
	£m	£m	£m
Loans and other borrowings	12,720	12,934	12,005
Cash and cash equivalents	(1,177)	(899)	(1,312)
Other current financial assets ¹	<u>(3,704)</u>	<u>(4,290)</u>	<u>(3,491)</u>
	7,839	7,745	7,202
Adjustments:			
To retranslate currency denominated balances at swapped rates where hedged	486	677	691
To recognise borrowings at net proceeds and unamortised discount	(212)	-	-
Other	<u>8</u>	<u>-</u>	<u>-</u>
Net debt	<u>8,121</u>	<u>8,422</u>	<u>7,893</u>

After allocating the element of the adjustments which impact loans and other borrowings, gross debt at June 30, 2005 was £12,686 million (June 30, 2004 - £13,637 million, March 31, 2005 - £12,696 million).

¹ Excluding derivative financial instruments of £162 million, £26 million and £143 million at June 30, 2005 and 2004 and March 31, 2005, respectively.

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

	First quarter ended June 30		Year ended
	2005	2004	March 31
	£m	£m	£m
Net debt at beginning of period	7,893	8,530	8,530
Increase (decrease) in net debt resulting from cash flows	235	(126)	(895)
Net debt assumed or issued on acquisitions	1	-	159
Currency and other movements	(14)	26	2
Other non-cash movements	<u>6</u>	<u>(8)</u>	<u>97</u>
Net debt at end of period	<u>8,121</u>	<u>8,422</u>	<u>7,893</u>

9 Statement of changes in equity

	First quarter ended June 30		Year ended
	2005	2004	March 31
	£m	£m	£m
Shareholders' funds (deficit)	45	(1,085)	(1,085)
Minority interest	<u>50</u>	<u>46</u>	<u>46</u>
	95	(1,039)	(1,039)
Effect of adoption of IAS 32 and 39 (see Appendix A)	<u>(337)</u>	—	—
Deficit at beginning of period	(242)	(1,039)	(1,039)
Profit for the financial period	374	302	1,830
Actuarial (losses) gains on pension obligations	(80)	-	294
Valuation gains and losses	64	-	-
Employee share schemes	2	11	31
Tax on items taken directly to equity	10	-	(82)
Issues of shares	2	-	1
Net movement in treasury shares	(12)	(31)	(176)
Dividends on ordinary shares	-	-	(786)
Currency translation adjustments	10	4	15
Minority interest	(1)	-	4
Other	<u>-</u>	<u>-</u>	<u>3</u>
Net changes in equity for the financial period	369	286	1,134
Equity at end of period			
Shareholders' funds (deficit)	78	(799)	45
Minority interest	<u>49</u>	<u>46</u>	<u>50</u>
	<u>127</u>	<u>(753)</u>	<u>95</u>

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

	First quarter ended June 30		Year ended
	2005	2004	March 31
	£m	£m	£m
Operating profit	636	573	2,992
Specific items (note 4)	12	14	(299)
Depreciation and amortisation (note 3)	<u>709</u>	<u>700</u>	<u>2,844</u>
EBITDA before specific items	<u>1,357</u>	<u>1,287</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 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.

	First quarter ended June 30		Year ended
	2005	2004	March 31 2005
Net income attributable to Shareholders (£m)	393	73	1,297
Earnings per ADS (£)			
- basic	0.46	0.09	1.52
- diluted	0.46	0.08	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 £231 million deficit at June 30, 2005 (June 30, 2004 - £1,395 million, March 31, 2005 - £584 million).

Forward-looking statements – caution advised

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

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

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

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