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BT GROUP PLC
Form 6-K
May 17, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

17 May 2007

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

BT Centre
81 Newgate Street
London
EC1A 7AJ
England

(Address of principal executive offices)

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

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

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

Yes No ..X..

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

Enclosure: 1. Final Results announcement made on 17 May, 2007

May 17, 2007

PRELIMINARY RESULTS - YEAR TO MARCH 31, 2007

FOURTH QUARTER HIGHLIGHTS

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- Revenue of GBP5,292 million, up 3 per cent
- New wave revenue of GBP2,117 million, up 14 per cent, represents 40 per cent of total revenue
- EBITDA before specific items(1) and leaver costs of GBP1,537 million, up 3 per cent
- Profit before taxation, specific items(1) and leaver costs of GBP695 million, up 10 per cent
- Earnings per share before specific items(1) and leaver costs of 6.3 pence, up 11 per cent, the twentieth consecutive quarter of year on year growth
- Broadband net additions(2) of 0.8 million to 10.7 million at March 31, 2007. BT Retail's share of net additions was 32 per cent

FULL YEAR HIGHLIGHTS

- Revenue of GBP20,223 million, up 4 per cent
- Profit before taxation and specific items(1) of GBP2,495 million, up 15 per cent
- Earnings per share before specific items(1) of 22.7 pence, up 16 per cent
- Free cash flow of GBP1,354 million and net debt of GBP7.9 billion
- Full year proposed dividend of 15.1 pence per share, up 27 per cent
- GBP2.5 billion allocated to a new share buyback programme, which we expect to be completed by March 31, 2009

The income statement, cash flow statement and balance sheet from which this information is extracted are set out on pages 17 to 23.

(1) Specific items are significant one off or unusual items as defined in note 4 on page 27.

(2) Includes DSL and LLU connections.

Chairman's statement

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

"BT has come a long way in the past five years. This is a very strong set of results which demonstrates how much has been achieved. Revenue grew by 4 per cent and earnings per share before specific items grew by 16 per cent.

"I am delighted to report that our proposed full year dividend is 15.1 pence per share, 27 per cent higher than last year, moving to a two thirds payout ratio a year earlier than we had previously announced. In addition, because of the

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financial strength of the company, we are introducing a new GBP2.5 billion share buyback programme which we expect to be completed by March 31, 2009.

"We have delivered on our commitments and are confident we will continue to grow revenue, EBITDA, earnings per share and dividends over the coming year."

Chief Executive's statement

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

"We have finished the year with a terrific all round performance. The figures show BT in great shape - revenue, EBITDA, earnings per share and free cash flow are all growing and new wave businesses now generate 40 per cent of our revenues. I am particularly pleased that BT is now the UK's number one retail broadband provider. BT Global Services had an excellent quarter securing orders worth GBP3.4 billion and winning more than 200 new customers.

"We have announced a new structure to take us into the next phase of our transformation as we seize the opportunity to deliver software driven services over our broadband network; providing our customers with faster, more resilient and cost effective services wherever in the world they are."

RESULTS FOR THE FOURTH QUARTER AND YEAR ENDED MARCH 31, 2007

| | Fourth quarter | | | Year | | |
|--|----------------|--------------|------------------------|--------------|--------------|------------------------|
| | 2007 GBPm | 2006 GBPm | Better (worse) % | 2007 GBPm | 2006 GBPm | Better (worse) % |
| Revenue | 5,292 | 5,134 | 3 | 20,223 | 19,514 | 4 |
| EBITDA | | | | | | |
| - before specific items and leaver costs | 1,537 | 1,498 | 3 | 5,780 | 5,650 | 2 |
| - before specific items | 1,474 | 1,431 | 3 | 5,633 | 5,517 | 2 |
| Profit before taxation | | | | | | |
| - before specific items and leaver costs | 695 | 629 | 10 | 2,642 | 2,310 | 14 |
| - before specific items | 632 | 562 | 12 | 2,495 | 2,177 | 15 |
| - after specific items | 601 | 507 | 19 | 2,484 | 2,040 | 22 |
| Earnings per share | | | | | | |
| - before specific items and leaver costs | 6.3p | 5.7p | 11 | 23.9p | 20.6p | 16 |
| - before specific items | 5.8p | 5.1p | 14 | 22.7p | 19.5p | 16 |
| - after specific items | 5.5p | 4.7p | 17 | 34.4p | 18.4p | 87 |

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| | | | | | | |
|---------------------|-------|-------|----|--------|--------|------|
| Capital expenditure | 905 | 973 | 7 | 3,247 | 3,142 | (3) |
| Free cash flow | 1,558 | 1,097 | 42 | 1,354* | 1,612* | (16) |
| Net debt | | | | 7,914 | 7,534 | (5) |

*Includes payment of deficiency pension contributions of GBP520 million (2006: GBP54 million)

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 27.

The income statement, cash flow statement and balance sheet are provided on pages 17 to 23. A reconciliation of EBITDA before specific items to group operating profit is provided on page 32. A definition and reconciliation of free cash flow and net debt are provided on pages 29 to 31.

GROUP RESULTS

Fourth quarter ended March 31, 2007

Revenue was 3 per cent higher at GBP5,292 million in the quarter with continued strong growth in new wave revenue more than offsetting the decline in traditional revenue. EBITDA before specific items and leaver costs grew by 2.6 per cent, the fifth consecutive quarter of growth. Earnings per share before specific items and leaver costs increased by 11 per cent to 6.3 pence, the twentieth consecutive quarter of year on year growth.

The strong growth in new wave revenue continued and at GBP2,117 million was 14 per cent higher than last year. New wave revenue is mainly generated from networked IT services and broadband and accounted for 40 per cent of the group's revenue. Networked IT services revenue grew by 6 per cent to GBP1,287 million, and broadband revenue increased by 32 per cent to GBP556 million.

Our strategy of focusing on convergence through embracing innovation and offering global reach continues to deliver. Networked IT services contract wins were GBP2.0 billion in the quarter taking the total BT Global Services contract wins to GBP3.4 billion in the fourth quarter, with GBP9.3 billion achieved over the last twelve months.

BT had 10.7 million wholesale broadband connections (DSL and LLU) at March 31, 2007, including 1.9 million local loop unbundled lines, an increase of 2.6 million connections year on year and 763,000 connections in the quarter. BT Retail's share of the net additions in the quarter was 32 per cent and our advanced VoIP services continued to grow strongly with 1.4 million registered customers at March 31, 2007. BT is now the UK's number one retail broadband provider.

Revenue

Revenue from the group's traditional businesses declined by 3 per cent, continuing recent trends. This reflects the defence of the traditional business

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despite regulatory intervention, competition and migration of customers to new wave services.

Major corporate (UK and international) revenue showed growth of 5 per cent, with 8 per cent growth in new wave revenue more than offsetting the 1 per cent decline in traditional services. Migration from traditional voice only services to networked IT services continued with new wave revenue representing two thirds of all major corporate revenue.

Revenue in the fourth quarter from smaller and medium sized (SME) UK businesses was maintained year on year. New wave revenue grew by 19 per cent driven by continued growth in broadband and other new wave services. We continue to focus on innovative pricing plans and propositions that deliver value to our customer base by bringing together IT, broadband and communication services.

Consumer revenue in the fourth quarter was 1 per cent lower, continuing the improving trend of recent quarters. Growth in consumer new wave revenue of 29 per cent continues to reduce our dependence on traditional revenue which has declined by 6 per cent with the strategic shift towards new wave products and services.

The 12 month rolling average revenue per consumer household increased by GBP4 for the second consecutive quarter to GBP262. Increased penetration of broadband and the growth of value added propositions have more than offset the lower call revenues. Following a period of sustained growth, the proportion of contracted revenues remained at 68 per cent as a result of the reductions in package prices made during the year.

Wholesale (UK and Global Carrier) revenue increased by 6 per cent driven by wholesale line rental (WLR) and local loop unbundling (LLU). Wholesale new wave revenue increased by 31 per cent to GBP389 million, mainly driven by broadband. New wave revenue now accounts for 28 per cent of wholesale revenue.

Operating results

Group operating costs before specific items increased by 3 per cent year on year to GBP4,672 million. Staff costs before leaver costs increased by GBP23 million to GBP1,264 million due mainly to the additional staff needed to support networked IT services contracts, increased levels of activity in the network and 21CN activities. Leaver costs were GBP63 million in the quarter (GBP67 million last year). Payments to other telecommunication operators increased by GBP56 million to GBP1,071 million. Other operating costs before specific items of GBP1,687 million increased by GBP54 million mainly due to increased costs of sales from growth in networked IT and other new wave services which were partly offset by cost savings from our efficiency programmes. Depreciation and amortisation was flat year on year at GBP773 million.

Group operating profit before specific items and leaver costs increased by 5 per cent to GBP764 million.

Earnings

Net finance costs before specific items were GBP70 million, an improvement of GBP31 million against last year. This includes net finance income associated with the group's defined benefit pension scheme which was GBP105 million in the fourth quarter, GBP42 million higher than last year, which more than offset the increase in interest on the higher net debt for the quarter.

Profit before taxation, specific items and leaver costs of GBP695 million increased by 10 per cent.

The effective tax rate on the profit before specific items was 24.5 per cent

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(23.3 per cent last year) compared to the UK statutory tax rate of 30 per cent, reflecting the continued focus on tax efficiency within the group.

Earnings per share before specific items and leaver costs increased by 11 per cent to 6.3 pence.

Specific items

Specific items are defined in note 4 on page 27. There was a net charge before tax of GBP31 million in the quarter (GBP55 million last year). Costs of GBP24 million relating to the further rationalisation of the group's property portfolio were incurred in the quarter (GBP56 million last year) and a GBP4 million write off of working capital balances. In addition, there was a loss of GBP3 million arising from the group's disposal of businesses.

Earnings per share after specific items were 5.5 pence in the quarter (4.7 pence last year).

Cash flow and net debt

Net cash inflow from operating activities in the fourth quarter amounted to GBP2,413 million compared to GBP2,065 million last year. This included the benefit of a net cash receipt of GBP376 million in the quarter from the settlement of open tax years to 2004/05 agreed with HMRC last quarter. For the full year the net cash inflow from operating activities of GBP5,210 million was GBP177 million lower than last year. This was after pension deficiency contributions of GBP520 million (GBP54 million last year).

Free cash flow was a net inflow of GBP1,558 million in the fourth quarter compared to GBP1,097 million last year, mainly reflecting the net cash tax receipt. The cash outflow from the purchase of fixed assets of GBP836 million was GBP44 million higher than last year. Capital expenditure for the full year amounted to GBP3.2 billion and is expected to remain at that level for 2007/08 before trending down towards the end of the decade.

The share buyback programme continued with the repurchase of 46 million shares for a total consideration of GBP140 million during the quarter, taking the total value of shares repurchased in the year to GBP401 million. Net debt was GBP7,914 million at March 31, 2007. Free cash flow and net debt are defined and reconciled in notes 7 and 8 on pages 29 to 31.

Dividends

The board recommends a final dividend of 10.0 pence per share to shareholders, amounting to GBP825 million. This will be paid, subject to shareholder approval, on September 17, 2007 to shareholders on the register on August 24, 2007. The ex-dividend date is August 22, 2007.

The full year proposed dividend has increased by 27 per cent to 15.1 pence per share, compared to 11.9 pence last year. This year's dividend pay out ratio is two thirds of earnings before specific items.

Pensions

The IAS 19 net pension obligation at March 31, 2007 was a deficit of GBP0.3 billion, net of tax, being GBP1.5 billion lower than the level at March 31, 2006. The BT Pension Scheme had assets of GBP38.3 billion at March 31, 2007.

Full year ended March 31, 2007

Revenue increased 4 per cent in the year to GBP20,223 million. Strong growth in new wave revenue continued and at GBP7,374 million new wave revenue was 17 per

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cent higher than last year. This strong growth more than offset the decline in traditional revenue of 3 per cent.

We remain focused on financial discipline and our cost efficiency programmes achieved savings of over GBP500 million in the full year which has enabled us to invest in further growth of our new wave activities.

EBITDA before specific items was GBP5,633 million, 2 per cent higher than last year. Group operating profit before specific items was GBP2,713 million, 3 per cent higher than the prior year.

Net finance costs before specific items were GBP233 million, an improvement of GBP239 million against last year. This includes net finance income associated with the group's defined benefit pension scheme which was GBP420 million, GBP166 million higher than last year, and the repayment of maturing debt last year which have contributed to the reduction in net finance costs. This reduction was offset by a GBP27 million net gain last year on the early redemption of the US dollar 2008 LG Telecom convertible bond.

The group achieved a profit before taxation and specific items of GBP2,495 million, a 15 per cent increase on last year.

The effective tax rate on the profit before specific items was 24.5 per cent (24.5 per cent last year). Our effective tax rate is expected to be between 25 and 26 per cent in 2007/08.

Earnings per share before specific items increased by 16 per cent to 22.7 pence.

21st Century Network

During the quarter, BT continued the process of migrating customers to its 21st Century Network (21CN) in South Wales and achieved further milestones.

The rebuild of BT's core national network is also continuing and we are on track to launch next generation broadband services to many of our customers nationally by Spring 2008.

We also continued the programme to roll out 21CN infrastructure outside the UK, with 21CN nodes established across a number of European markets.

Dividend and buyback policy

We expect to increase the dividend taking into account our earnings growth, cash generation and our ongoing investment needs.

In addition, taking into account the group's net debt level and the strong cash flow generation, we have decided to introduce a new GBP2.5 billion share buyback programme whilst increasing dividends and continuing to invest in the growth of the business. This buyback programme is expected to be completed by March 31, 2009. BT seeks to maintain a solid investment grade credit rating whilst continuing to invest for the future and with an efficient balance sheet further enhance shareholder value.

Business transformation

During April BT announced a new structure that will deliver faster, more resilient and cost effective services to customers wherever they are. The move is designed to accelerate BT's transformation into a networked IT services company, delivering software driven products over broadband. It will also allow us to accelerate the achievement of cost savings.

BT is bringing together its world class people from design, operations, IT and

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networks into two business units within a single reporting structure headed by Andy Green, who has become Chief Executive of Group Strategy and Operations. BT Design will be responsible for the design and development of the platforms, systems and processes which will support our services while BT Operate will be responsible for their deployment and operation. Approximately 20,000 BT employees will move into these new units from other parts of the business. Francois Barrault has become Chief Executive of BT Global Services and has joined the BT Board.

It is estimated that the reorganisation and transformation activities will result in restructuring costs of around GBP450 million which is expected to generate a payback within 2 to 3 years. These activities will include developing new processes and systems, re-skilling and leaver costs which will be accommodated within existing policies and by voluntary means. We expect the majority of the costs will be incurred in 2007/08 and be classified as a specific item in our 2007/08 results.

Outlook

Our performance underpins our confidence that we can continue to grow revenue, EBITDA before specific items and leaver costs, earnings per share before specific items and leaver costs, and dividends over the coming year.

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 30, 2007. The Annual General Meeting of BT Group plc will be held at The Sage Gateshead, St Mary's Square, Gateshead Quays on July 19, 2007.

LINE OF BUSINESS RESULTS

Openreach, a new line of business created in accordance with the regulatory framework agreed with Ofcom (the Undertakings), was launched on January 21, 2006. It is responsible for ensuring that all communications providers have transparent and equivalent access to the BT local network, and comprises a work force of approximately 33,000 people. Its primary products are wholesale line rental (WLR) and local loop unbundling (LLU).

In order to assist readers in understanding the year on year performance, we have restated the comparative line of business results. These restatements also reflect the impact of the new internal trading arrangements that have been implemented due to the creation of Openreach. There is no change to the overall group reported results.

BT Global Services

| | Fourth quarter ended March 31 | | | | Year ended March 31 | |
|-----------------------------|-------------------------------|-------|----------------|---|------------------------|-------|
| | 2007 | 2006* | Better (worse) | | 2007 | 2006* |
| | GBPm | GBPm | GBPm | % | GBPm | GBPm |
| Revenue | 2,503 | 2,406 | 97 | 4 | 9,106 | 8,772 |
| Gross profit | 754 | 757 | (3) | - | 2,673 | 2,633 |
| SG&A before leaver costs | 429 | 450 | 21 | 5 | 1,653 | 1,658 |

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| | | | | | | |
|-------------------------------------|-------|-------|------|------|-------|-------|
| | ----- | ----- | | | ----- | ----- |
| EBITDA before | | | | | | |
| leaver costs | 325 | 307 | 18 | 6 | 1,020 | 975 |
| Leaver costs | 24 | 21 | (3) | (14) | 52 | 49 |
| | ----- | ----- | | | ----- | ----- |
| EBITDA | 301 | 286 | 15 | 5 | 968 | 926 |
| Depreciation and amortisation | 190 | 168 | (22) | (13) | 675 | 638 |
| | ----- | ----- | | | ----- | ----- |
| Operating profit | 111 | 118 | (7) | (6) | 293 | 288 |
| | ===== | ===== | | | ===== | ===== |
| Capital expenditure | 184 | 220 | 36 | 16 | 695 | 702 |
| | ===== | ===== | | | ===== | ===== |

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

BT Global Services revenue grew in the fourth quarter by 4 per cent to GBP2,503 million. New wave and non-UK revenue surpassed GBP2 billion for the first time at GBP2,055 million, an increase of 9 per cent year on year. MPLS revenue rose by 37 per cent to GBP179 million.

Order intake for the quarter was strong with networked IT services contract orders of GBP2.0 billion, up GBP0.9 billion from the prior year, taking contract orders for the last twelve months to GBP5.2 billion. This included a 5 year, GBP0.6 billion contract from Credit Suisse for the management of their global networking function, taking advantage of the latest connectivity technologies, and a contract for GBP0.3 billion over 15 years with Sandwell Metropolitan District Council to improve its performance in the delivery of its services. Total orders in the quarter amounted to GBP3.4 billion, the highest level for two years and GBP1.1 billion higher than last year, taking the value of total orders achieved over the last twelve months to GBP9.3 billion. This quarter 207 new corporate customers from around the world chose BT for the first time.

EBITDA before leaver costs increased year on year by GBP18 million to GBP325 million, representing growth of 6 per cent, continuing the acceleration of the EBITDA growth seen in previous quarters. Gross profit was broadly flat while SG&A costs were reduced by GBP21 million as cost reduction initiatives continued to take effect in our drive to achieve a 15 per cent EBITDA margin before leaver costs. During the year more than 2,500 roles either had been or were in the process of being globally sourced. Depreciation and amortisation charges increased by GBP22 million to GBP190 million, which included the impact of bringing further NHS London assets into use. Leaver costs were GBP3 million higher at GBP24 million. Overall, this brought operating profit to GBP111 million, a reduction of GBP7 million from last year.

Capital expenditure in the quarter was GBP184 million, a decrease of GBP36 million over last year, and 1 per cent lower for the full year.

BT Global Services has further strengthened its global position, capabilities and skills in driving towards a new and truly global software based services organisation with the acquisition during the fourth quarter of INS in the US, a global provider of IT consulting and software solutions. In addition, the recently announced agreements to purchase Comsat International, a leading provider of data communications services in Latin America, and i2i in India, a specialist in IP communications services, will further strengthen the global capability.

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BT Retail

| | Fourth quarter ended March 31 | | | | Year ended March 31 | |
|-------------------------------------|-------------------------------|---------------|----------------|--------------|---------------------|---------------|
| | 2007 GBPm | 2006* GBPm | Better GBPm | (worse) % | 2007 GBPm | 2006* GBPm |
| Revenue | 2,138 | 2,135 | 3 | - | 8,414 | 8,507 |
| Gross profit | 604 | 582 | 22 | 4 | 2,350 | 2,229 |
| SG&A before leaver costs | 376 | 376 | - | - | 1,481 | 1491 |
| EBITDA before leaver costs | 228 | 206 | 22 | 11 | 869 | 738 |
| Leaver costs | 10 | 9 | (1) | (11) | 24 | 22 |
| EBITDA | 218 | 197 | 21 | 11 | 845 | 716 |
| Depreciation and amortisation | 49 | 38 | (11) | (29) | 171 | 147 |
| Operating profit | 169 | 159 | 10 | 6 | 674 | 569 |
| Capital expenditure | 52 | 53 | 1 | 2 | 166 | 153 |

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

In the quarter BT Retail's EBITDA before leaver costs was 11 per cent higher than last year, continuing the recent trend of strong growth. The success in growing new wave revenues and defending traditional revenues continued and overall revenue grew for the second successive quarter. The gross margin percentage increased by 1.0 percentage point reflecting improved margin management and the impact of cost transformation programmes. SG&A costs before leaver costs were maintained driven by improved efficiency offsetting additional costs invested in new services. Operating profit improved by 6 per cent to GBP169 million in the quarter and for the full year improved by 18 per cent. EBITDA for the full year grew by 18 per cent, at the upper end of our strong growth targets. This growth was despite significant price cuts particularly to our key call packages and extra value incorporated into our broadband offerings. Further growth is expected in 2007/08.

In the quarter, traditional revenue declined by 6 per cent whilst new wave revenue grew by 28 per cent, driven primarily by broadband and other new wave services. New wave revenue was 23 per cent of total revenue which is up from 18 per cent last year.

Broadband revenue grew by 28 per cent to GBP259 million. In the quarter BT added another 245,000 connections, in addition to the 195,000 connections gained through BT's recent acquisition of PlusNet, ending the quarter at 3.7 million broadband connections making BT the leading broadband retailer, by market share, in the UK. BT Retail's share of broadband net additions (DSL and LLU) was 32 per

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cent in the fourth quarter. In addition more than half of our consumer customers who order broadband choose the higher value packages. BT's share of the installed base increased to 34 per cent as at March 31, 2007.

Our broadband propositions continue to build on our strong reputation for service, reliability and value for money. The BT Hub enables many features allowing customers to experience the full benefits of the internet. Inclusive use of Openzone as part of the BT broadband package means that customers can enjoy the broadband experience outside their home. As planned, BT Vision is being rolled out gradually to ensure a great customer experience, adding further partners with Home Box Office and Universal Music UK. Our download store, www.downloadstore.bt.com, is available to all 14 million UK broadband users regardless of which internet service provider they use.

Our BT Home IT Advisor service, launched a year ago, has proven a success with customer orders of more than 2,000 a week and with 96 per cent satisfied with the support they get. The service allows customers of any broadband supplier to connect to a UK based advisor who will deal with their problem.

The advanced VoIP service grew strongly in the quarter. Registered consumer customers for our VoIP services, Broadband Talk and BT Softphone at March 31, 2007 were 1.4 million, achieving the million customer milestone significantly ahead of our June 2007 target.

In the SME market, the success of our strategy of using broadband as a core part of a simple and complete communication and IT solution for our customers is reflected in our strong market share. BT Business Total Broadband launched in the quarter allowing customers to benefit from a free broadband voice additional line offer and our latest suite of security software, and we already have an installed base of 47,000. Options 2 and 3 customers also enjoy the freedom of wireless internet. BT Workspace, our user-friendly web-based collaboration tool for business is helping businesses transform their working environment and improve customer relationships. With BT Business One Plan, the first triple play for business, we further simplify the customer experience by combining fixed, mobile and broadband communications, allowing businesses to get even more value for money from their existing broadband line.

Our aim is not just to provide great services in the home or office but also to our customers when they are out and about. BT Openzone, our public Wi-Fi service, continues to expand in airports, hotels and other locations. We have set up Wi-Fi zones in twelve UK city centres and are already seeing a significant increase in local authority support to expand further. Wi-Fi Fusion and Office Anywhere bring together the benefits of fixed and mobile convergence on one mobile device, with lower cost calls and better connectivity where GSM is not available.

The Enterprises division within BT Retail continues to be a major success, growing both revenue and profit by delivering innovative packages and services. In the full year, the Enterprises division grew revenue and EBITDA by more than 30 per cent. Conferencing revenue grew strongly by 22 per cent and further growth is expected as we launch our new video conferencing technology and services later in the year. Dabs.com, which was acquired in April 2006, grew revenue by 18 per cent, outpacing a competitive PC market.

BT Wholesale

| ===== Fourth quarter ended March 31 ----- | ===== Year ended March 31 ----- |
|---|--|
|---|--|

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| | 2007 | 2006* | Better (worse) | | 2007 | 2006* |
|--------------------------------------|-------|-------|----------------|------|-------|-------|
| | GBPm | GBPm | GBPm | % | GBPm | GBPm |
| External revenue | 1,003 | 989 | 14 | 1 | 4,057 | 3,908 |
| Internal revenue | 927 | 879 | 48 | 5 | 3,527 | 3,435 |
| Revenue | 1,930 | 1,868 | 62 | 3 | 7,584 | 7,343 |
| Variable cost of sales | 984 | 956 | (28) | (3) | 3,848 | 3,720 |
| Gross variable profit | 946 | 912 | 34 | 4 | 3,736 | 3,623 |
| Network and SG&A before leaver costs | 450 | 440 | (10) | (2) | 1,775 | 1,731 |
| EBITDA before leaver costs | 496 | 472 | 24 | 5 | 1,961 | 1,892 |
| Leaver costs | 17 | 24 | 7 | 29 | 39 | 31 |
| EBITDA | 479 | 448 | 31 | 7 | 1,922 | 1,861 |
| Depreciation and amortisation | 329 | 286 | (43) | (15) | 1,198 | 1,102 |
| Operating profit | 150 | 162 | (12) | (7) | 724 | 759 |
| Capital expenditure | 314 | 326 | 12 | 4 | 1,017 | 975 |

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

BT Wholesale external revenue in the fourth quarter of GBP1,003 million increased by 1 per cent. Revenue from new wave services, driven by broadband growth, increased to GBP286 million and now accounts for 29 per cent of external revenue.

Internal revenue increased by 5 per cent to GBP927 million due to strong growth in broadband revenue from internal channels more than offsetting the impact of lower call volumes and lower regulatory prices being reflected in internal charges.

Gross variable profit increased by 4 per cent to GBP946 million. Network and SG&A costs increased by 2 per cent as a result of cost savings made through network efficiencies, offset by network costs on the roll-out of 21CN. Leaver costs for the quarter were GBP17 million compared to GBP24 million last year.

EBITDA before leaver costs has increased by 5 per cent to GBP496 million. Higher depreciation, due to the shortening of the useful economic lives of legacy transmission assets to be replaced by 21CN assets, has resulted in a 7 per cent decline in operating profit.

Capital expenditure was 4 per cent lower than last year as the increased investment in 21CN was more than offset by successfully managing the legacy infrastructure on a lower level of capital investment.

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BT Wholesale launched a 'white label managed services' platform in the quarter which enables customers to offer service bundles without the operational and financial risk of running a network and developing new service offerings. The platform incorporates customer call centre and managed billing capabilities.

BT Wholesale is underpinning Vodafone UK's recently announced 'Vodafone at Home' fixed line voice and broadband service, which went live on January 8, 2007, as part of a managed service.

The company also continued a foundation trial for next generation broadband services based on ADSL2+ during the quarter in Cardiff. The trial is an important step in the delivery of next generation broadband services at up to 24 Mbps to customers across the UK from 2008 as part of the company's rollout of 21CN.

Openreach

| | Fourth quarter ended March 31 | | | | Year ended March 31 | |
|---|-------------------------------|---------------|--------------------------|-----|---------------------|---------------|
| | 2007 GBPm | 2006* GBPm | Better (worse) GBPm % | | 2007 GBPm | 2006* GBPm |
| External revenue | 204 | 122 | 82 | 67 | 685 | 318 |
| Revenue from other BT lines of business | 1,121 | 1,177 | (56) | (5) | 4,492 | 4,824 |
| Revenue | 1,325 | 1,299 | 26 | 2 | 5,177 | 5,142 |
| Operating costs before leaver costs | 838 | 790 | (48) | (6) | 3,289 | 3,156 |
| EBITDA before leaver costs | 487 | 509 | (22) | (4) | 1,888 | 1,986 |
| Leaver costs | 1 | 2 | 1 | 50 | 4 | 3 |
| EBITDA | 486 | 507 | (21) | (4) | 1,884 | 1,983 |
| Depreciation and amortisation | 177 | 230 | 53 | 23 | 707 | 800 |
| Operating profit | 309 | 277 | 32 | 12 | 1,177 | 1,183 |
| Capital expenditure | 261 | 265 | 4 | 2 | 1,108 | 1,038 |

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

Openreach's revenue in the fourth quarter was GBP1,325 million, a 2 per cent increase, driven by strong market volume growth which has more than offset WLR price reductions made in prior periods. External revenue increased by GBP82 million due to volume growth on all products, including broadband related connections. Revenues from other BT lines of business decreased by 5 per cent to

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GBP1,121 million reflecting the volume shift to external revenues and the regulatory price reductions made in prior periods.

Operating costs increased by GBP48 million to GBP838 million. Operational volumes have increased as a result of high broadband connection activity and the continued investment in service levels. These volume increases and the effects of inflationary pressures have been partly offset by efficiency programme savings across the business to keep the overall increase to 6 per cent.

Overall this has resulted in a GBP22 million decrease in EBITDA before leaver costs.

However, this has been offset by the decrease in depreciation and amortisation costs of GBP53 million. This is primarily due to the lengthening of the useful economic life of copper and duct, consistent with Ofcom's review. Operating profit improved by GBP32 million to GBP309 million.

Capital expenditure in the quarter was 2 per cent lower. Increased spend to meet LLU demand and systems development to ensure compliance with the Undertakings have been partly mitigated by the strong capital cost controls and lower business as usual systems spend.

At March 31, 2007 Openreach had 1.9 million external LLU lines with net additions of 615,000 LLU connections in the quarter. Openreach has 4.2 million external WLR lines and channels.

On March 31, 2007, Openreach achieved IBMC (Installed Base Migration Complete) on the retail Ethernet based area network services, except for Local Area Network Extension Service products which are subject to an exemption and will be migrated later this year. Openreach continues to progress with the commitment to achieve Equivalence of Input for WLR and the separation of Operational Support Systems both due at the end of June 2007.

GROUP INCOME STATEMENT for the three months ended March 31, 2007

| (unaudited) | Notes | Before specific items GBPm | Specific items (note 4) GBPm | Total GBPm |
|--|-------|----------------------------------|------------------------------------|---------------|
| Revenue | 2 | 5,292 | - | 5,292 |
| Other operating income | | 81 | (5) | 76 |
| Operating costs | 3 | (4,672) | (28) | (4,700) |
| Operating profit | 2 | 701 | (33) | 668 |
| Finance costs | | (655) | - | (655) |
| Finance income | | 585 | - | 585 |
| Net finance costs | 5 | (70) | - | (70) |
| Share of post tax profits of associates and joint ventures | | 1 | - | 1 |
| Profit on disposal of associate | | - | 2 | 2 |

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| | | | | |
|------------------------|---|-------|-------|-------|
| Profit before taxation | | ----- | ----- | ----- |
| | | 632 | (31) | 601 |
| Taxation | | (155) | 9 | (146) |
| Profit for the period | | ----- | ----- | ----- |
| | | 477 | (22) | 455 |
| | | ===== | ===== | ===== |
| Attributable to: | | | | |
| Equity shareholders | | 476 | (22) | 454 |
| Minority interest | | 1 | - | 1 |
| | | ===== | ===== | ===== |
| Earnings per share | 6 | | | |
| - basic | | 5.8p | | 5.5p |
| | | ===== | | ===== |
| - diluted | | 5.6p | | 5.3p |
| | | ===== | | ===== |

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

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

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- diluted ===== =====
5.1p 4.6p
===== =====

GROUP INCOME STATEMENT
for the year ended March 31, 2007

| | Notes | Before specific items GBPm | Specific items (note 4) GBPm | Total GBPm |
|--|-------|-------------------------------|------------------------------------|---------------|
| Revenue | 2 | 20,223 | - | 20,223 |
| Other operating income | | 236 | (3) | 233 |
| Operating costs | 3 | (17,746) | (169) | (17,915) |
| Operating profit | 2 | 2,713 | (172) | 2,541 |
| Finance costs | | (2,604) | - | (2,604) |
| Finance income | | 2,371 | 139 | 2,510 |
| Net finance (costs) income | 5 | (233) | 139 | (94) |
| Share of post tax profits of associates and joint ventures | | 15 | - | 15 |
| Profit on disposal of associate | | - | 22 | 22 |
| Profit before taxation | | 2,495 | (11) | 2,484 |
| Taxation | | (611) | 979 | 368 |
| Profit for the period | | 1,884 | 968 | 2,852 |
| Attributable to: | | | | |
| Equity shareholders | | 1,882 | 968 | 2,850 |
| Minority interest | | 2 | - | 2 |
| Earnings per share | 6 | | | |
| - basic | | 22.7p | | 34.4p |
| - diluted | | 22.2p | | 33.6p |

GROUP INCOME STATEMENT
for the year ended March 31, 2006

| | Notes | Before specific items GBPm | Specific items (note 4) GBPm | Total GBPm |
|------------------------|-------|-------------------------------|------------------------------------|---------------|
| Revenue | 2 | 19,514 | - | 19,514 |
| Other operating income | | 227 | - | 227 |
| Operating costs | 3 | (17,108) | (138) | (17,246) |
| Operating profit | 2 | 2,633 | (138) | 2,495 |

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| | | | | |
|--|---|---------|-------|---------|
| Finance costs | | (2,740) | - | (2,740) |
| Finance income | | 2,268 | - | 2,268 |
| | | ----- | ----- | ----- |
| Net finance costs | 5 | (472) | - | (472) |
| Share of post tax profits of associates and joint ventures | | 16 | - | 16 |
| Profit on disposal of joint venture | | - | 1 | 1 |
| | | ----- | ----- | ----- |
| Profit before taxation | | 2,177 | (137) | 2,040 |
| Taxation | | (533) | 41 | (492) |
| | | ----- | ----- | ----- |
| Profit for the period | | 1,644 | (96) | 1,548 |
| | | ===== | ===== | ===== |
| Attributable to: | | | | |
| Equity shareholders | | 1,643 | (96) | 1,547 |
| Minority interest | | 1 | - | 1 |
| | | ===== | ===== | ===== |
| Earnings per share | 6 | | | |
| - basic | | 19.5p | | 18.4p |
| | | ===== | | ===== |
| - diluted | | 19.2p | | 18.1p |
| | | ===== | | ===== |

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended March 31, 2007

| | Year ended March 31 | |
|--|------------------------|--------------|
| | 2007 GBPm | 2006 GBPm |
| | ----- | ----- |
| Profit for the period | 2,852 | 1,548 |
| | ===== | ===== |
| Actuarial gains on defined benefit pension schemes | 1,409 | 2,122 |
| Net gains (losses) on cash flow hedges | 163 | (200) |
| Exchange differences on translation of foreign operations | (95) | 24 |
| Tax on items taken directly to equity | (486) | (593) |
| | ----- | ----- |
| Net gains recognised directly in equity | 991 | 1,353 |
| | ----- | ----- |
| Total recognised income for the period | 3,843 | 2,901 |
| | ===== | ===== |
| Attributable to: | | |
| Equity shareholders | 3,843 | 2,900 |
| Minority interest | - | 1 |
| | ----- | ----- |
| | 3,843 | 2,901 |
| | ===== | ===== |

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GROUP CASH FLOW STATEMENT
for the three months and year ended March 31, 2007

| | Fourth quarter ended March 31 (unaudited) | | Year ended March 31 | |
|--|---|--------------|------------------------|--------------|
| | 2007 GBPm | 2006 GBPm | 2007 GBPm | 2006 GBPm |
| Cash flow from operating activities | | | | |
| Cash generated from operations (note 7 (a)) | 2,168 | 2,138 | 5,245 | 5,777 |
| Income taxes received (paid) | 245 | (73) | (35) | (390) |
| Net cash inflow from operating activities | 2,413 | 2,065 | 5,210 | 5,387 |
| Cash flow from investing activities | | | | |
| Net acquisition of subsidiaries, associates and joint ventures | (163) | (55) | (237) | (167) |
| Net purchase of property, plant, equipment and software | (836) | (792) | (3,209) | (2,874) |
| Interest received | 84 | 19 | 147 | 185 |
| Dividends received from associates and joint ventures | - | - | 6 | 1 |
| Net sale of short term investments and non current asset investments | 191 | 933 | 258 | 3,220 |
| Net cash (used) received in investing activities | (724) | 105 | (3,035) | 365 |
| Cash flows from financing activities | | | | |
| Net repurchase of ordinary share capital | (73) | (106) | (279) | (339) |
| Net repayments of borrowings | (153) | (1,204) | (1,074) | (3,410) |
| Net movement on commercial paper | (723) | 464 | 309 | 464 |
| Interest paid | (117) | (195) | (797) | (1,086) |
| Equity dividends paid | (419) | (358) | (1,057) | (907) |
| Net cash used in financing activities | (1,485) | (1,399) | (2,898) | (5,278) |
| Effects of exchange rate changes | (9) | - | (37) | - |
| Net increase (decrease) in cash and cash equivalents | 195 | 771 | (760) | 474 |
| Cash and cash equivalents at beginning of period | 829 | 1,013 | 1,784 | 1,310 |

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| | | | | |
|--|-------|-------|-------|-------|
| Cash and cash equivalents, net of bank overdrafts, at end of period (note 7 (c)) | 1,024 | 1,784 | 1,024 | 1,784 |
| | ===== | ===== | ===== | ===== |
| Free cash flow(1)note 7 (b)) | 1,558 | 1,097 | 1,354 | 1,612 |
| | ===== | ===== | ===== | ===== |
| Decrease (increase) in net debt from cash flows (note 8 (b)) | 903 | 578 | (219) | 199 |
| | ===== | ===== | ===== | ===== |
| (1) Net of pension deficiency contributions | (20) | - | (520) | (54) |

GROUP BALANCE SHEET
at March 31, 2007

| | March 31 2007 GBPm | March 31 2006 GBPm |
|---------------------------------------|--------------------------|--------------------------|
| ----- | ----- | ----- |
| Non current assets | | |
| Goodwill and other intangible assets | 2,584 | 1,908 |
| Property, plant and equipment | 14,997 | 15,222 |
| Trade and other receivables | 523 | 305 |
| Other non current assets | 119 | 84 |
| Deferred tax assets | 117 | 764 |
| | ----- | ----- |
| | 18,340 | 18,283 |
| | ----- | ----- |
| Current assets | | |
| Inventories | 133 | 124 |
| Trade and other receivables | 4,073 | 3,894 |
| Current tax receivables | 504 | - |
| Other financial assets | 30 | 434 |
| Cash and cash equivalents | 1,075 | 1,965 |
| | ----- | ----- |
| | 5,815 | 6,417 |
| | ----- | ----- |
| Total assets | 24,155 | 24,700 |
| | ===== | ===== |
| Current liabilities | | |
| Loans and other borrowings | 2,203 | 1,940 |
| Trade and other payables | 6,719 | 6,540 |
| Other current liabilities | 695 | 1,000 |
| | ----- | ----- |
| | 9,617 | 9,480 |
| | ----- | ----- |
| Total assets less current liabilities | 14,538 | 15,220 |
| | ===== | ===== |
| Non current liabilities | | |
| Loans and other borrowings | 6,387 | 7,995 |
| Deferred tax liabilities | 1,683 | 1,505 |

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| | | |
|----------------------------------|--------|--------|
| Retirement benefit obligations | 389 | 2,547 |
| Other non current liabilities | 1,807 | 1,566 |
| | ----- | ----- |
| | 10,266 | 13,613 |
| | ----- | ----- |
| Capital and reserves | | |
| Called up share capital | 432 | 432 |
| Reserves | 3,806 | 1,123 |
| | ----- | ----- |
| Total equity shareholders' funds | 4,238 | 1,555 |
| Minority interest | 34 | 52 |
| | ----- | ----- |
| Total equity | 4,272 | 1,607 |
| | ----- | ----- |
| | 14,538 | 15,220 |
| | ===== | ===== |

NOTES

1 Basis of preparation and accounting policies

The preliminary results for the year ended March 31, 2007 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 30, 2007.

The financial information set out in this announcement does not constitute statutory accounts for the year ended March 31, 2007 or 2006. The financial information for the year ended March 31, 2006 is derived from the statutory accounts for that year. 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.

Certain comparative balance sheet amounts as at March 31, 2006 have been reclassified to conform with the presentation adopted as at March 31, 2007. These include GBP305 million which has been reclassified from prepayments to non current assets at March 31, 2006 in respect of costs relating to the initial set up, transition or transformation phase of long term networked IT services contracts. In addition, GBP267 million has been reclassified from property, plant and equipment to intangible assets at March 31, 2006 in respect of IT software application assets.

In order to assist readers in understanding the year on year performance, we have restated the comparative line of business results to reflect the creation of Openreach which is now reported as a separate line of business. These restatements also reflect the impact of the new internal trading arrangements that have been implemented. There is no change to the overall group reported results.

2 Results of businesses

(a) Operating results

| External revenue | Internal revenue | Group revenue | EBITDA (ii) | Group operating profit (loss) (ii) |
|---------------------|---------------------|------------------|----------------|--|
| GBPm | GBPm | GBPm | GBPm | GBPm |

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Fourth quarter ended

March 31, 2007

| | | | | | |
|----------------------|-------|---------|---------|-------|-------|
| BT Global Services | 2,065 | 438 | 2,503 | 301 | 111 |
| BT Retail | 2,015 | 123 | 2,138 | 218 | 169 |
| BT Wholesale | 1,003 | 927 | 1,930 | 479 | 150 |
| Openreach | 204 | 1,121 | 1,325 | 486 | 309 |
| Other | 5 | - | 5 | (10) | (38) |
| Intra-group items(i) | - | (2,609) | (2,609) | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 5,292 | - | 5,292 | 1,474 | 701 |
| | ===== | ===== | ===== | ===== | ===== |

Fourth quarter ended

March 31, 2006

(restated - note 1)

| | | | | | |
|----------------------|-------|---------|---------|-------|-------|
| BT Global Services | 1,992 | 414 | 2,406 | 286 | 118 |
| BT Retail | 2,026 | 109 | 2,135 | 197 | 159 |
| BT Wholesale | 989 | 879 | 1,868 | 448 | 162 |
| Openreach | 122 | 1,177 | 1,299 | 507 | 277 |
| Other | 5 | - | 5 | (7) | (58) |
| Intra-group items(i) | - | (2,579) | (2,579) | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 5,134 | - | 5,134 | 1,431 | 658 |
| | ===== | ===== | ===== | ===== | ===== |

Year ended

March 31, 2007

| | | | | | |
|----------------------|--------|----------|----------|-------|-------|
| BT Global Services | 7,467 | 1,639 | 9,106 | 968 | 293 |
| BT Retail | 7,997 | 417 | 8,414 | 845 | 674 |
| BT Wholesale | 4,057 | 3,527 | 7,584 | 1,922 | 724 |
| Openreach | 685 | 4,492 | 5,177 | 1,884 | 1,177 |
| Other | 17 | - | 17 | 14 | (155) |
| Intra-group items(i) | - | (10,075) | (10,075) | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 20,223 | - | 20,223 | 5,633 | 2,713 |
| | ===== | ===== | ===== | ===== | ===== |

Year ended

March 31, 2006

(restated - see
note 1)

| | | | | | |
|----------------------|--------|----------|----------|-------|-------|
| BT Global Services | 7,168 | 1,604 | 8,772 | 926 | 288 |
| BT Retail | 8,102 | 405 | 8,507 | 716 | 569 |
| BT Wholesale | 3,908 | 3,435 | 7,343 | 1,861 | 759 |
| Openreach | 318 | 4,824 | 5,142 | 1,983 | 1,183 |
| Other | 18 | - | 18 | 31 | (166) |
| Intra-group items(i) | - | (10,268) | (10,268) | - | - |
| | ----- | ----- | ----- | ----- | ----- |
| Total | 19,514 | - | 19,514 | 5,517 | 2,633 |
| | ===== | ===== | ===== | ===== | ===== |

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

(ii) Before specific items.

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

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2 Results of businesses continued

(b) Revenue analysis

| | Fourth quarter ended March 31 | | | | Year ended March 31 | |
|-------------------|----------------------------------|--------------|----------------|--------------|------------------------|--------------|
| | 2007 GBPm | 2006 GBPm | Better GBPm | (worse) % | 2007 GBPm | 2006 GBPm |
| Traditional | 3,175 | 3,283 | (108) | (3) | 12,849 | 13,232 |
| New wave | 2,117 | 1,851 | 266 | 14 | 7,374 | 6,282 |
| | ----- | ----- | | | ----- | ----- |
| | 5,292 | 5,134 | 158 | 3 | 20,223 | 19,514 |
| | ===== | ===== | | | ===== | ===== |
| Major corporate | 2,009 | 1,922 | 87 | 5 | 7,244 | 6,880 |
| Business | 588 | 587 | 1 | - | 2,353 | 2,324 |
| Consumer | 1,305 | 1,312 | (7) | (1) | 5,124 | 5,296 |
| Wholesale/Carrier | 1,385 | 1,308 | 77 | 6 | 5,485 | 4,996 |
| Other | 5 | 5 | - | - | 17 | 18 |
| | ----- | ----- | | | ----- | ----- |
| | 5,292 | 5,134 | 158 | 3 | 20,223 | 19,514 |
| | ===== | ===== | | | ===== | ===== |

(c) New wave revenue analysis

| | Fourth quarter ended March 31 | | | | Year ended March 31 | |
|-----------------------|----------------------------------|--------------|----------------|--------------|------------------------|--------------|
| | 2007 GBPm | 2006 GBPm | Better GBPm | (worse) % | 2007 GBPm | 2006 GBPm |
| Networked IT services | 1,287 | 1,214 | 73 | 6 | 4,386 | 4,065 |
| Broadband | 556 | 421 | 135 | 32 | 2,016 | 1,459 |
| Mobility | 78 | 82 | (4) | (5) | 294 | 292 |
| Other | 196 | 134 | 62 | 46 | 678 | 466 |
| | ----- | ----- | | | ----- | ----- |
| | 2,117 | 1,851 | 266 | 14 | 7,374 | 6,282 |
| | ===== | ===== | | | ===== | ===== |

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

| | Fourth quarter ended March 31 | | | | Year ended March 31 | |
|--|----------------------------------|--------------|----------------|--------------|------------------------|--------------|
| | 2007 GBPm | 2006 GBPm | Better GBPm | (worse) % | 2007 GBPm | 2006 GBPm |
| BT Global Services | 184 | 220 | 36 | 16 | 695 | 702 |
| BT Retail | 52 | 53 | 1 | 2 | 166 | 153 |
| BT Wholesale | 314 | 326 | 12 | 4 | 1,017 | 975 |
| Openreach | 261 | 265 | 4 | 2 | 1,108 | 1,038 |
| Other (including fleet vehicles and property) | 94 | 109 | 15 | 14 | 261 | 274 |
| | ----- | ----- | | | ----- | ----- |
| | 905 | 973 | 68 | 7 | 3,247 | 3,142 |
| | ===== | ===== | | | ===== | ===== |

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| | ===== | ===== | | | ===== | ===== |
|--------------------------------|-------|-------|------|------|-------|-------|
| Transmission equipment | 312 | 353 | 41 | 12 | 1,209 | 1,429 |
| Exchange equipment | 41 | 23 | (18) | (78) | 118 | 80 |
| Other network equipment | 251 | 283 | 32 | 11 | 854 | 727 |
| Computers and office equipment | 69 | 72 | 3 | 4 | 149 | 138 |
| Software | 206 | 182 | (24) | (13) | 807 | 592 |
| Motor vehicles and other | 14 | 34 | 20 | 59 | 49 | 108 |
| Land and buildings | 12 | 26 | 14 | 54 | 61 | 68 |
| | ----- | ----- | | | ----- | ----- |
| | 905 | 973 | 68 | 7 | 3,247 | 3,142 |
| | ===== | ===== | | | ===== | ===== |

3 (a) Operating costs

| | Fourth quarter ended | | Year ended | |
|---|----------------------|-------|------------|--------|
| | March 31 | | March 31 | |
| | 2007 | 2006 | 2007 | 2006 |
| | GBPm | GBPm | GBPm | GBPm |
| Staff costs before leaver costs | 1,264 | 1,241 | 5,076 | 4,833 |
| Leaver costs | 63 | 67 | 147 | 133 |
| | ----- | ----- | ----- | ----- |
| Staff costs | 1,327 | 1,308 | 5,223 | 4,966 |
| Own work capitalised(1) | (186) | (175) | (718) | (674) |
| | ----- | ----- | ----- | ----- |
| Net staff costs | 1,141 | 1,133 | 4,505 | 4,292 |
| Depreciation and amortisation | 773 | 773 | 2,920 | 2,884 |
| Payments to telecommunication operators | 1,071 | 1,015 | 4,162 | 4,045 |
| Other operating costs | 1,687 | 1,633 | 6,159 | 5,887 |
| | ----- | ----- | ----- | ----- |
| Total before specific items | 4,672 | 4,554 | 17,746 | 17,108 |
| Specific items (note 4) | 28 | 56 | 169 | 138 |
| | ----- | ----- | ----- | ----- |
| Total | 4,700 | 4,610 | 17,915 | 17,246 |
| | ===== | ===== | ===== | ===== |

(1)Own work capitalised has been restated to exclude third party costs. This has no effect on the total costs.

(b) Leaver costs

| | Fourth quarter ended | | Year ended | |
|--------------------|----------------------|-------|------------|-------|
| | March 31 | | March 31 | |
| | 2007 | 2006 | 2007 | 2006 |
| | GBPm | GBPm | GBPm | GBPm |
| BT Global Services | 24 | 21 | 52 | 49 |
| BT Retail | 10 | 9 | 24 | 22 |
| BT Wholesale | 17 | 24 | 39 | 31 |
| Openreach | 1 | 2 | 4 | 3 |
| Other | 11 | 11 | 28 | 28 |
| | ----- | ----- | ----- | ----- |
| Total | 63 | 67 | 147 | 133 |
| | ===== | ===== | ===== | ===== |

4 Specific items

BT separately identifies and discloses any significant one off or unusual items

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(termed "specific items"). This includes profit and losses on the disposal of investments and businesses, and asset impairment charges. 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.

| | Fourth quarter ended | | Year ended | |
|---|----------------------|-------|------------|-------|
| | March 31 | | March 31 | |
| | 2007 | 2006 | 2007 | 2006 |
| | GBPm | GBPm | GBPm | GBPm |
| Creation of Openreach | - | - | 30 | 70 |
| Property rationalisation costs | 24 | 56 | 64 | 68 |
| Write off of circuit inventory and working capital balances | 4 | - | 65 | - |
| Cost associated with settlement of open tax years | - | - | 10 | - |
| | ----- | ----- | ----- | ----- |
| Specific operating costs | 28 | 56 | 169 | 138 |
| Loss (profit) on sale of non current asset investments | 3 | (1) | (19) | (1) |
| Interest on settlement of open tax years | - | - | (139) | - |
| Tax credit | (9) | (16) | (979) | (41) |
| | ----- | ----- | ----- | ----- |
| Total specific items loss (profit) | (22) | 39 | (968) | 96 |
| | ===== | ===== | ===== | ===== |

5 Net finance costs

| | Fourth quarter ended | | Year ended | |
|--|----------------------|-------|------------|---------|
| | March 31 | | March 31 | |
| | 2007 | 2006 | 2007 | 2006 |
| | GBPm | GBPm | GBPm | GBPm |
| Finance costs(1) before pension interest | 187 | 186 | 732 | 924 |
| Interest on pension scheme liabilities | 468 | 454 | 1,872 | 1,816 |
| | ----- | ----- | ----- | ----- |
| Finance costs | 655 | 640 | 2,604 | 2,740 |
| | ----- | ----- | ----- | ----- |
| Finance income(2) before pension income | (12) | (22) | (218) | (198) |
| Expected return on pension scheme assets | (573) | (517) | (2,292) | (2,070) |
| | ----- | ----- | ----- | ----- |
| Finance income | (585) | (539) | (2,510) | (2,268) |
| | ----- | ----- | ----- | ----- |
| Net finance costs | 70 | 101 | 94 | 472 |
| | ===== | ===== | ===== | ===== |
| Net finance costs before pensions | 175 | 164 | 514 | 726 |
| Interest associated with pensions | (105) | (63) | (420) | (254) |
| | ----- | ----- | ----- | ----- |
| Net finance costs | 70 | 101 | 94 | 472 |
| | ===== | ===== | ===== | ===== |

(1) Finance costs in the fourth quarter and year ended March 31, 2007 include a net charge of GBP3 million and GBP4 million, respectively, arising from the

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re-measurement of financial instruments on a fair value basis which under IAS 39 are not in hedging relationships (fourth quarter and year ended March 31, 2006 included a GBP4 million net credit and GBP8 million net charge respectively). A component of the net credits for the year ended March 31, 2006 was the fair value movement in, and realised gain arising from, the early redemption of the US dollar 2008 LG Telecom convertible bond amounting to GBP27 million.

(2) Finance income in the year ended March 31, 2007 includes of GBP139 million of interest on settlement of open tax years.

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:

| | Fourth quarter ended March 31 | | Year ended March 31 | |
|---------|----------------------------------|-------|------------------------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| | millions of shares | | millions of shares | |
| Basic | 8,265 | 8,354 | 8,293 | 8,422 |
| Diluted | 8,487 | 8,473 | 8,479 | 8,537 |

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

| | Fourth quarter ended March 31 | | Year ended March 31 | |
|--|----------------------------------|-------|------------------------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| | GBPm | | GBPm | |
| Profit before tax | 601 | 507 | 2,484 | 2,040 |
| Depreciation and amortisation | 773 | 773 | 2,920 | 2,884 |
| Associates and joint ventures | (1) | (5) | (15) | (16) |
| Employee share scheme costs | 23 | 17 | 93 | 76 |
| Net finance (income) costs | 70 | 101 | 94 | 472 |
| Profit on disposal of property assets and non current asset investments | 3 | - | (19) | - |
| Changes in working capital | 713 | 705 | (52) | 120 |
| Provisions movements, pensions and other | (14) | 40 | (260) | 201 |
| | ----- | ----- | ----- | ----- |
| Cash generated from operations | 2,168 | 2,138 | 5,245 | 5,777 |
| | ===== | ===== | ===== | ===== |

(b) Free cash flow

| | Fourth quarter ended March 31 | | Year ended March 31 | |
|---|----------------------------------|-------|------------------------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| | GBPm | | GBPm | |
| Cash generated from operations | 2,168 | 2,138 | 5,245 | 5,777 |
| Income taxes received (paid) | 245 | (73) | (35) | (390) |
| | ----- | ----- | ----- | ----- |
| Net cash inflow from operating activities | 2,413 | 2,065 | 5,210 | 5,387 |
| Included in cash flows from investing activities | | | | |

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| | | | | |
|---|-------|-------|---------|---------|
| Net purchase of property, plant, equipment and software | (836) | (792) | (3,209) | (2,874) |
| Net purchase of non current asset investments | 14 | - | (3) | (1) |
| Dividends received from associates | - | - | 6 | 1 |
| Interest received | 84 | 19 | 147 | 185 |
| Included in cash flows from financing activities | | | | |
| Interest paid | (117) | (195) | (797) | (1,086) |
| | ----- | ----- | ----- | ----- |
| Free cash flow | 1,558 | 1,097 | 1,354 | 1,612 |
| | ===== | ===== | ===== | ===== |

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

(c) Cash and cash equivalents

| | At March 31 | |
|---------------------------|-------------|-------|
| | 2007 | 2006 |
| | GBPm | GBPm |
| Cash at bank and in hand | 568 | 511 |
| Short term deposits | 507 | 1,454 |
| | ----- | ----- |
| Cash and cash equivalents | 1,075 | 1,965 |
| Bank overdrafts | (51) | (181) |
| | ----- | ----- |
| | 1,024 | 1,784 |
| | ===== | ===== |

8 Net debt

Net debt at March 31, 2007 was GBP7,914 million (March 31, 2006 - GBP7,534 million).

Net debt consists of loans and other borrowings less current asset investments and cash and cash equivalents. Loans and other borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this analysis current asset investments, cash and cash equivalents are measured at the lower of cost and net realisable value. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged.

This definition of net debt measures balances at the expected value of future cash flows due to arise on maturity of financial instruments and removes the balance sheet adjustments made for the re-measurement of hedged risks under fair value hedges and the use of the amortised cost method as required by IAS 39. In addition, the gross balances are adjusted to take account of netting arrangements amounting to GBP49 million. Net debt is a non GAAP measure since it is not defined in IFRS but it is a key indicator used by management in order to assess operational performance.

8 (a) Analysis

| | At March 31 | |
|--|-------------|------|
| | 2007 | 2006 |
| | GBPm | GBPm |

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| | | |
|--|---------|---------|
| Loans and other borrowings | 8,590 | 9,935 |
| Cash and cash equivalents | (1,075) | (1,965) |
| Other current financial assets(1) | (3) | (365) |
| | 7,512 | 7,605 |
| Adjustments: | | |
| To retranslate currency denominated balances at swapped rates where hedged | 577 | 121 |
| To recognise borrowings and investments at net proceeds and unamortised discount | (175) | (192) |
| | 7,914 | 7,534 |
| Net debt | 7,914 | 7,534 |

After allocating the element of the adjustments which impact loans and other borrowings, gross debt at March 31, 2007 was GBP8,943 million (March 31, 2006 - GBP9,685 million).

(1)Excluding derivative financial instruments of GBP27 million and GBP69 million at March 31, 2007 and 2006, respectively.

8 (b) Reconciliation of movement in net debt

| | Fourth quarter ended | | Year ended | |
|---|----------------------|-------|------------|-------|
| | March 31 | | March 31 | |
| | 2007 | 2006 | 2007 | 2006 |
| | GBPm | GBPm | GBPm | GBPm |
| Net debt at beginning of period | 8,796 | 8,113 | 7,534 | 7,893 |
| (Decrease) increase in net debt resulting from cash flows | (903) | (578) | 219 | (199) |
| Net debt assumed or issued on acquisitions | 2 | (1) | 11 | - |
| Currency movements | 10 | (10) | 124 | (75) |
| Other non-cash movements | 9 | 10 | 26 | (85) |
| | 7,914 | 7,534 | 7,914 | 7,534 |
| Net debt at end of period | 7,914 | 7,534 | 7,914 | 7,534 |

9 Statement of changes in equity

| | Year ended | |
|---|------------|-------|
| | March 31 | |
| | 2007 | 2006 |
| | GBPm | GBPm |
| Shareholders' funds | 1,555 | 45 |
| Minority interest | 52 | 50 |
| | 1,607 | 95 |
| Effect of adoption of IAS 32 and IAS 39 | - | (209) |
| | 1,607 | (114) |
| Fund (deficit) at beginning of year | 1,607 | (114) |
| Total recognised income for the year | 3,843 | 2,901 |
| Share based payments | 71 | 65 |

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| | | |
|--|---------|-------|
| Issues of shares | 24 | 4 |
| Tax on items taken directly to equity | 82 | 5 |
| Net purchase of treasury shares | (284) | (344) |
| Dividends on ordinary shares | (1,053) | (912) |
| Minority interest | (18) | 2 |
| | ----- | ----- |
| Net changes in equity for the financial year | 2,665 | 1,721 |
| Equity at end of year | | |
| Shareholders' funds | 4,238 | 1,555 |
| Minority interest | 34 | 52 |
| | ----- | ----- |
| Total equity | 4,272 | 1,607 |
| | ===== | ===== |

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

| | Fourth quarter ended | | Year ended | |
|--|----------------------|-------|------------|-------|
| | March 31 | | March 31 | |
| | 2007 | 2006 | 2007 | 2006 |
| | GBPm | GBPm | GBPm | GBPm |
| Operating profit | 668 | 602 | 2,541 | 2,495 |
| Specific items (note 4) | 33 | 56 | 172 | 138 |
| Depreciation and amortisation (note 3) | 773 | 773 | 2,920 | 2,884 |
| | ----- | ----- | ----- | ----- |
| EBITDA before specific items | 1,474 | 1,431 | 5,633 | 5,517 |
| | ===== | ===== | ===== | ===== |

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 10.0 pence per share (7.6 pence last year). This will be paid, subject to shareholder approval, on September 17, 2007 to shareholders who were on the register at August 24, 2007. This final dividend, amounting to GBP825 million (GBP631 million last year) has not been included as a liability as at March 31, 2007. It will be recognised as an appropriation of retained earnings within shareholders' equity in the quarter ended September 30, 2007. This takes the total proposed dividend in relation to the year to 15.1 pence per share (11.9 pence last year).

12 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 | | Year ended | |
|--|----------------------|------|------------|-------|
| | March 31 | | March 31 | |
| | 2007 | 2006 | 2007 | 2006 |
| Net income attributable to shareholders (GBPm) | 422 | 227 | 2,792 | 1,063 |
| Earnings per ADS (GBP) | | | | |
| - basic | 0.51 | 0.27 | 3.37 | 1.26 |

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- diluted 0.50 0.27 3.29 1.25

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

Shareholders' equity, calculated in accordance with US GAAP, is GBP3,586 million at March 31, 2007 (March 31, 2006 - GBP162 million (restated)*).

*Shareholders' equity at March 31, 2006 has been restated, resulting in an increase of GBP320 million, to correct a deferred tax valuation allowance.

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 revenue, EBITDA, earnings per share and dividends, growing free cash flow and improved shareholder returns; growth in new wave revenue, mainly from networked IT services and broadband; implementation of BT's 21st Century Network; the introduction of next generation services; and BT's accelerated strategic transformation and achievement of cost savings.

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

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to; material adverse changes in economic conditions in the markets served by BT; 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.

Signatures

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

BT Group PLC
(Registrant)

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By: /s/ Patricia Day

Patricia Day, Assistant Secretary.

Date 17 May, 2007