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BT GROUP PLC
Form 6-K
July 27, 2006

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

27 July 2006

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- _____

Enclosures: 1. 1st Quarter Results announcement made on 27 July 2006

July 27, 2006

FIRST QUARTER RESULTS TO JUNE 30, 2006

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HIGHLIGHTS

- Revenue of GBP4,864 million, up 3 per cent
- New wave revenue of GBP1,641 million, up 18 per cent, represents 34 per cent of total revenue
- EBITDA before specific items (1) and leaver costs of GBP1,386 million, up 2 per cent
- Profit before taxation, specific items (1) and leaver costs of GBP639 million, up 24 per cent
- Earnings per share before specific items (1) and leaver costs of 5.8 pence, up 26 per cent
- BT Retail's share of broadband net additions was 30 per cent
- Broadband end users (2) of 8.7 million at June 30, 2006

Chief Executive's statement

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

"This is a strong all round performance to start the financial year, with the momentum we saw in recent quarters continuing. Revenue has increased for ten consecutive quarters; EBITDA (3) was up 2 per cent, an improvement on the rate of growth we achieved last quarter; and earnings per share³ was up 26 per cent, the seventeenth consecutive quarter of growth.

"Our international business is expanding strongly and we won more than 200 new customer accounts outside the UK in the quarter.

"Our first quarter results underpin our confidence in our ability to continue to grow our revenue, EBITDA, earnings per share and dividends this year."

The income statement, cash flow statement and balance sheet from which this information is extracted are set out on pages 14 to 19.

(1) Before specific items which are material one off or unusual items as defined in note 4 on page 23.

(2) DSL and LLU connections as restated to include BT own use and test lines as sourced from equivalent BT Wholesale systems.

(3) Before specific items and leaver costs.

RESULTS FOR THE FIRST QUARTER ENDED JUNE 30, 2006

	First quarter		Better (worse) %	Year ended
	2006 GBPm	2005 GBPm		March 31 2006 GBPm
Revenue	4,864	4,731	3	19,514

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EBITDA				
- before specific items and leaver costs	1,386	1,363	2	5,650
- before specific items	1,362	1,357	-	5,517
Profit before taxation				
- before specific items and leaver costs	639	517	24	2,310
- before specific items	615	511	20	2,177
- after specific items	615	499	23	2,040
Earnings per share				
- before specific items and leaver costs	5.8p	4.6p	26	20.6p
- before specific items	5.6p	4.5p	24	19.5p
- after specific items	5.6p	4.4p	27	18.4p
Capital expenditure	715	716	-	3,142
Free cash flow	(17)	(126)	87	1,612
Net debt	7,727	8,121	5	7,534

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 23.

The income statement, cash flow statement and balance sheet are provided on pages 14 to 19. A reconciliation of EBITDA before specific items to group operating profit is provided on page 28. A definition and reconciliation of free cash flow and net debt are provided on pages 24 to 27.

GROUP RESULTS

Revenue was 3 per cent higher at GBP4,864 million in the quarter with strong growth in new wave revenue more than offsetting the decline in traditional revenue. EBITDA before specific items and leaver costs grew by 1.7 per cent. This is the second quarter of growth and builds on the 0.9 per cent growth reported last quarter. Earnings per share before specific items and leaver costs increased by 26 per cent to 5.8 pence, the seventeenth consecutive quarter of year on year growth.

The strong growth in new wave revenue continued and at GBP1,641 million was 18 per cent higher than last year. New wave revenue accounted for 34 per cent of the group's revenue compared to 29 per cent in the first quarter of last year. New wave revenue is mainly generated from networked IT services, broadband and mobility. Networked IT services revenue grew by 9 per cent to GBP981 million, broadband revenue increased by 45 per cent to GBP454 million and mobility revenue increased by 8 per cent to GBP71 million.

Networked IT services contract wins were GBP1.0 billion in the first quarter, and the value of total orders achieved over the last twelve months was GBP4.1 billion. Of this total, more than 20 per cent of the order value was generated outside the UK.

BT had 8.7 million wholesale broadband connections at June 30, 2006, including 580,000 local loop unbundled lines, an increase of 2.9 million connections year on year and 535,000 connections in the quarter. The definition of broadband connections has been adjusted to include BT own use and test lines as sourced

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from equivalent BT Wholesale systems on which a data cleanse has also been performed and the statistics above are quoted on a consistent basis. Over 40 per cent of all UK homes now subscribe to broadband services.

Revenue from the group's traditional businesses declined by 4 per cent continuing recent trends. This reflects regulatory intervention, competition, price reductions and also technological changes that we are using to drive customers from traditional services to new wave services.

Major corporate (UK and international) revenue showed growth of 6 per cent, with 10 per cent growth in new wave revenue more than offsetting the decline in traditional services. Migration from traditional voice only services to networked IT services continued with new wave revenue representing 58 per cent of all major corporate revenue.

Revenue from smaller and medium sized (SME) UK businesses was maintained year on year. New wave revenue grew by 25 per cent driven by continued growth in broadband and other new wave services. In the declining UK calls market, BT has continued to use BT Business Plan to defend revenues through delivering value to its customer base.

Consumer revenue in the first quarter was 5 per cent lower. Growth in new wave revenue of 37 per cent continues to reduce our dependence on traditional revenue which has declined by 10 per cent with the strategic shift towards new wave products and services. New wave revenue now represents 14 per cent of the total consumer revenue.

The 12 month rolling average revenue per consumer household (net of mobile termination charges) of GBP253 increased by GBP2 compared to last quarter, the second successive quarter of growth. Improvements in the proportion of customers upgrading from the basic broadband package and more new customers subscribing for higher value packages more than offset the lower call revenues. BT Total Broadband reflects our strategy to drive value into the broadband market. Contracted revenues increased by 1 percentage point to 68 per cent compared to last quarter, 3 percentage points higher than last year.

Wholesale (UK and Global Carrier) revenue increased by 8 per cent. UK Wholesale new wave revenue increased by 21 per cent to GBP265 million, mainly driven by broadband.

Group operating costs before specific items increased by 3 per cent year on year at GBP4,255 million. Staff costs before leaver costs increased by GBP100 million to GBP1,256 million due mainly to the additional staff needed to support networked IT services contracts, increased levels of activity in the network and 21CN activities (including capital work) as well as cost inflation. Leaver costs were GBP24 million in the quarter (GBP6 million last year). Payments to other telecommunication operators were flat year on year at GBP1,006 million. Other operating costs before specific items increased by GBP83 million mainly due to increased costs of sales from growth in networked IT and other new wave services. These were partly offset by cost savings from our efficiency programmes. Depreciation and amortisation decreased by 1 per cent year on year to GBP703 million.

Group operating profit before specific items and leaver costs increased by 4 per cent to GBP683 million. Operating profit margins before specific items and leaver costs increased by 0.2 percentage points to 14.0 per cent.

Net finance costs were GBP46 million, an improvement of GBP96 million against last year. Net finance income associated with the group's defined benefit pension scheme was GBP105 million in the first quarter, GBP42 million higher than last year. Repayment of maturing debt last year, fair value movements on derivatives that are economic hedges but are not fully effective hedges under

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the IAS 39 definitions and lower net debt have also contributed to the reduction in net finance costs.

Profit before taxation, specific items and leaver costs of GBP639 million increased by 24 per cent.

The effective tax rate on the profit before specific items was 24.5 per cent (25.2 per cent last year). The effective tax rate reflects the continued focus on tax efficiency within the group.

Earnings per share before specific items and leaver costs increased by 26 per cent to 5.8 pence.

Specific items

Specific items are defined in note 4 on page 23. There were no specific items in the first quarter. The charge of GBP12 million in the first quarter of last year arose from the rationalisation of the group's provincial office portfolio.

Cash flow and net debt

Net cash from operating activities in the first quarter amounted to GBP1,002 million compared to GBP841 million last year, largely due to lower working capital outflows.

Cash flows from investing activities were a net cash outflow of GBP1,551 million in the first quarter compared to GBP887 million last year. This mainly reflects the higher surplus funds in the quarter compared to the prior year, which were invested in short term investments.

Cash flows from financing activities were a net outflow of GBP20 million in the first quarter compared to a net outflow of GBP353 million last year. This mainly reflects the issue of commercial paper in the current quarter to support funding requirements which were financed through operational flows in the prior year and lower net interest payments following the maturity of bonds in the prior year.

Free cash flow was a net outflow of GBP17 million in the first quarter compared to a net outflow of GBP126 million last year mainly reflecting the lower working capital outflows. The share buyback programme continued with the repurchase of 22 million shares for GBP50 million during the quarter. Net debt was GBP7,727 million at June 30, 2006, GBP394 million below the level at June 30, 2005. Free cash flow and net debt are defined and reconciled in notes 7 and 8 on pages 24 to 27.

Pensions

The IAS 19 net pension obligation at June 30, 2006 was a deficit of GBP1.6 billion, net of tax, being GBP1.8 billion lower than the level at June 30, 2005. The BT Pension Scheme had assets of GBP35 billion at June 30, 2006. The triennial funding valuation at December 31, 2005 is currently being performed and reviewed in the context of recent regulatory developments and the impact of the Crown Guarantee granted on privatisation in 1984.

21st Century Network

In response to industry feedback, BT presented a detailed 21st Century Network (21CN) proposal in May 2006, and since then has been actively consulting with industry and Ofcom on these revised proposals. These consultation streams are due to close over the coming weeks.

Upon conclusion, BT expects to have an industry-agreed rollout plan for 21CN. This will cover the migration of existing voice and IPStream broadband services

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	2006 GBPm	2005* GBPm	Better (worse) GBPm %		2006* GBPm
Revenue	2,155	2,067	88	4	8,772
EBITDA before leaver costs	228	221	7	3	975
Leaver costs	17	2	(15)	n/m	49
	-----	-----			-----
EBITDA	211	219	(8)	(4)	926
Depreciation and amortisation	148	152	4	3	638
	-----	-----			-----
Operating profit	63	67	(4)	(6)	288
	=====	=====			=====
Capital expenditure	149	142	(7)	(5)	702
	=====	=====			=====

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

BT Global Services grew revenue in the first quarter by 4 per cent to GBP2,155 million. This was achieved despite absorbing the impact of further declines in UK traditional and carrier revenues. Order intake remained firm with networked IT services contract orders of GBP1.0 billion, which included Unilever and Philips, resulting in orders of GBP4.1 billion over the last twelve months. More than 20 per cent of the order intake was again generated outside the UK.

EBITDA before leaver costs increased year on year by GBP7 million to GBP228 million. Further growth in new wave profitability, together with rationalisations in network related and indirect costs, more than offset the decline in EBITDA experienced in UK traditional products, including migration to IPVPNs sold to UK corporates and further reductions in dial IP due to broadband substitution. Depreciation charges were GBP4 million lower but leaver costs were GBP15 million higher following a further headcount reduction programme which took approximately 250 people from the support cost base and this has led to a fall in operating profit after leaver costs of GBP4 million.

Capital expenditure in the quarter rose by GBP7 million to GBP149 million due to extra network investment outside the UK.

BT has achieved some notable successes on its NHS National Programme for IT contracts. On N3, the NHS broadband network in England, it has installed 15,000 connections - ahead of schedule for its target of 18,000 by March 2007. In an extension to this contract, BT has completed over half of the NHS Scotland broadband network. N3 is the largest virtual private network in Europe.

As the London service provider, BT will have delivered some capability to more than 50 per cent of trusts by the end of the year. It has already delivered 50 per cent of its Picture Archiving and Communications Systems (PACS) to trusts serving over two million people. PACS enables X-rays and scans to be stored, displayed, and transmitted electronically, rather than being printed onto film. The programme has also delivered systems for GPs, pathology and pharmacy.

The BT delivered Spine, one of the world's largest transactional database and messaging services, has enabled national services such as electronic prescriptions, (over 2 million prescriptions issued) and the "Choose and Book" service (more than 700,000 appointments). Spine has 250,000 registered users.

BT Retail

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	First quarter ended June 30				Year ended
	2006 GBPm	2005* GBPm	Better GBPm	(worse) %	March 31 2006* GBPm
Revenue	2,068	2,120	(52)	(2)	8,507
Gross margin	560	536	24	4	2,229
SG&A before leaver costs	378	378	-	-	1,491
EBITDA before leaver costs	182	158	24	15	738
Leaver costs	2	3	1	33	22
EBITDA	180	155	25	16	716
Depreciation and amortisation	40	34	(6)	(18)	147
Operating profit	140	121	19	16	569
Capital expenditure	40	35	(5)	(14)	153

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

BT Retail's EBITDA before leaver costs was 15 per cent higher than last year, the fourth consecutive quarter of growth. Gross margins increased by 1.8 percentage points compared to the prior year helped by increased consumer broadband margins. Improved gross margin management more than compensated for the 2 per cent decline in revenues. Selling, general and administration costs were held flat year on year. Operating profit improved by 16 per cent to GBP140 million.

Traditional revenue declined by 8 per cent whilst new wave revenue grew by 31 per cent, driven primarily by broadband and other new wave services. New wave revenue was 19 per cent of total revenue in the quarter, up from 14 per cent last year.

Broadband revenue grew by 37 per cent to GBP220 million with BT Retail connections at 30 June growing to 2,826,000 an increase of 6 per cent in the quarter. We achieved a 30 per cent market share of broadband net additions (DSL plus LLU) in the quarter.

The launch of BT Total Broadband during the quarter allows customers to enjoy a comprehensive set of cutting-edge features as standard, powered by up to 8 Mbit/s download speeds. Value for money is enhanced by free evening and weekend calls, and free video calls when made over the broadband connection, along with a suite of security software. These are all brought together through the revolutionary BT Home Hub, providing wireless connectivity to all wireless broadband-enabled devices and services. BT Total Broadband also includes 250 free BT Openzone (public Wi-Fi Service) minutes per month and is enhanced with 24/7 helpdesk support which includes remote diagnostics.

BT Broadband Talk suite of Voice over Internet Protocol (VoIP) products have been upgraded and is one of the most advanced VoIP services on the market, now available with high-definition sound for delivering crystal clear internet voice and video calls. We have also launched BT Broadband Talk Video where customers equipped with the BT Videophone can see the person they are talking to.

The acquisition of dabs.com, one of the UK's leading internet retailers of IT and technology products was completed on April 28, 2006. dabs.com strengthens BT Retail's online sales and service capabilities particularly for the SME market -

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enhancing its position as a leading retailer of converged IT and communications products and services. We continue to launch new propositions to the SME market, including switches such as BT Micro (office in a box) and converged options and upgrades such as the Broadband Voice Module to facilitate voice and data convergence. These propositions allow our customers to have one system to manage their voice calls, data network, share of broadband access and exploit VoIP technology.

BT Vision, due to launch in Autumn, yesterday announced a major download-to-own and video-on-demand agreement with NBC Universal. BT Vision has also won the rights to carry 242 'near-live' FA Premier League football matches per season covering the 2007-8, 2008-9 and 2009-10 seasons. This will allow fans to watch full Premiership matches on their televisions on a pay per view basis without the need for an up-front subscription. This added to the existing BT Vision content from well-known names including Paramount, DreamWorks, National Geographic and Warner Music will give viewers one of the most compelling entertainment offers in the UK.

Agreements are now in place with 12 cities, including Westminster, Cardiff, Birmingham and Glasgow, which are set to become pioneers of the BT Wireless Cities initiative across the UK. In addition, our customers currently have access to over 8,500 public Wi-Fi hotspots in the UK and Ireland and over 30,000 globally allowing them access to information and services to work, talk and play. BT Openzone the public Wi-Fi service was recently awarded the Best Service Provider accolade at the 2006 Global Wireless Broadband Innovation Awards.

BT Wholesale

	First quarter ended June 30				Year ended
	2006	2005*	Better	(worse)	March 31
	GBPm	GBPm	GBPm	%	2006*
					GBPm
External revenue	997	968	29	3	3,908
Internal revenue	850	846	4	-	3,435
	-----	-----			-----
Revenue	1,847	1,814	33	2	7,343
Variable cost of sales	920	931	11	1	3,720
	-----	-----			-----
Gross variable profit	927	883	44	5	3,623
Network and SG&A before leaver costs	449	415	(34)	(8)	1,731
	-----	-----			-----
EBITDA before leaver costs	478	468	10	2	1,892
Leaver costs	1	-	(1)	n/m	31
	-----	-----			-----
EBITDA	477	468	9	2	1,861
Depreciation and amortisation	285	271	(14)	(5)	1,102
	-----	-----			-----
Operating profit	192	197	(5)	(3)	759
	=====	=====			=====
Capital expenditure	200	230	30	13	974
	=====	=====			=====

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

BT Wholesale revenue in the first quarter of GBP1,847 million increased by 2 per cent, driven by external revenue growth of 3 per cent, reflecting strong growth in broadband. External revenue from new wave services increased by 21 per cent

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to GBP265 million and accounts for 27 per cent of external revenue.

Internal revenue increased marginally to GBP850 million due to strong growth in internal broadband revenue more than offsetting the impact of lower call volumes and lower regulatory prices being reflected in internal charges.

Gross variable profit at GBP927 million increased by 5 per cent as a result of revenue growth and a change in sales mix towards more profitable products such as broadband. Cost savings through network efficiencies have been more than offset by higher 21CN expenditure and increasing network and customer service costs from growth in broadband.

Overall, EBITDA before leaver costs has increased by GBP10 million to GBP478 million. Higher depreciation due to the shortening of the useful economic lives of legacy transmission assets to be replaced by the 21CN and leaver costs of GBP1 million has resulted in a 3 per cent decline in operating profit.

Capital expenditure in the quarter was 13 per cent lower than last year reflecting the increased investment in the 21CN being more than offset by significantly decreased investment in legacy network technologies.

BT Wholesale will launch BT Movio, Europe's first national broadcast digital TV and Radio Service to a mobile handset, later this summer. Virgin Mobile will be the first retail partner to take the service to market.

BT Wholesale launched broadband max services in March 2006, providing the UK market with the highest stable speed broadband service across the widest national footprint in the world. Service providers are currently migrating broadband subscribers to BT Wholesale's IPMax services, which deliver services at speeds of up to 8 Mbit/s. To date, more than 750,000 subscribers have been migrated to max services, aided by the availability of a new automated mass customer migration tool.

BT Wholesale has also launched beta trials of a range of advanced services, including application driven quality of service, which will ensure high performance for business critical broadband applications.

BT Wholesale recently launched Virtual Interconnect Circuits (VIC), a product designed to provide commercial stability as the industry moves towards next generation networks. VIC will allow service providers to continue to benefit from local exchange segment (LES) rates while BT closes digital line exchanges as part of the 21CN upgrade programme.

Openreach

	First quarter ended June 30				Year ended
	2006	2005*	Better	(worse)	March 31
	GBPm	GBPm	GBPm	%	2006*
					GBPm
External revenue	130	53	77	145	318
Internal revenue	1,129	1,241	(112)	(9)	4,824
Revenue	1,259	1,294	(35)	(3)	5,142
Operating costs	787	787	-	-	3,156
EBITDA before leaver costs	472	507	(35)	(7)	1,986
Leaver costs	2	-	(2)	n/m	3
EBITDA	470	507	(37)	(7)	1,983
Depreciation and amortisation	175	186	11	6	800

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	-----	-----			-----
Operating profit	295	321	(26)	(8)	1,183
	=====	=====			=====
Capital expenditure	271	257	(14)	(5)	1,039
	=====	=====			=====

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

Openreach's revenue in the first quarter was GBP1,259 million, a decrease of 3 per cent driven by regulatory price reductions partially offset by market volume growth. Recent price reductions have stimulated the market resulting in an increase in external revenues of 145 per cent to GBP130 million. Internal revenue has decreased by 9 per cent to GBP1,129 million reflecting the regulatory price cuts and the volume shift from internal to external revenues.

At the end of June, Openreach had over 580,000 external LLU lines and 3.5 million external WLR lines. These have grown significantly from March 31, 2006 with net additions being 224,000 LLU connections and 683,000 WLR connections on last quarter.

On June 30, 2006, in line with the Undertakings, Openreach successfully provided Metallic Path Facility (MPF) and shared MPF products on an equivalent basis. This was achieved by the development and delivery of the Equivalence Management Platform (EMP). The EMP is an automated system designed to cope with higher volumes of orders for unbundled lines to meet increasing demand.

Operating costs at GBP787 million were held flat despite the increased infrastructure costs incurred to support Openreach, volume increases and inflationary rises. These increases have been offset by various cost savings across the business.

Overall this has delivered a GBP35 million decrease in EBITDA before leaver costs. Decreased depreciation and amortisation costs of GBP11 million is due to the lengthening of the useful economic life of copper, consistent with Ofcom's review. This is partially offset by higher systems depreciation.

Capital expenditure in the quarter was 5 per cent higher than last year reflecting increased investment in new systems to ensure compliance with the Undertakings and increased network infrastructure spend to meet LLU demand.

GROUP INCOME STATEMENT

for the three months ended June 30, 2006

		Before specific items	Specific items (note 4)	Total
(unaudited)	Notes	GBPm	GBPm	GBPm
-----	-----	-----	-----	-----
Revenue	2	4,864	-	4,864
Other operating income		50	-	50
Operating costs	3	(4,255)	-	(4,255)
Operating profit	2	659	-	659
Finance costs		(642)	-	(642)
Finance income		596	-	596
		-----	-----	-----

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Net finance costs	5	(46)	-	(46)
Share of post tax profits of associates and joint ventures		2	-	2
		-----	-----	-----
Profit before taxation		615	-	615
Taxation		(151)	-	(151)
		-----	-----	-----
Profit for the period attributable to equity shareholders		464	-	464
		=====	=====	=====
Earnings per share	6			
- basic		5.6p		5.6p
- diluted		5.5p		5.5p
		=====	=====	=====

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

(unaudited)	Notes	Before specific items GBPm	Specific items (note 4) GBPm	Total GBPm
-----	-----	-----	-----	-----
Revenue	2	4,731	-	4,731
Other operating income		42	-	42
Operating costs	3	(4,125)	(12)	(4,137)
		-----	-----	-----
Operating profit	2	648	(12)	636
Finance costs		(716)	-	(716)
Finance income		574	-	574
		-----	-----	-----
Net finance costs	5	(142)	-	(142)
Share of post tax profits of associates and joint ventures		5	-	5
		-----	-----	-----
Profit before taxation		511	(12)	499
Taxation		(129)	4	(125)
		-----	-----	-----
Profit for the period attributable to equity shareholders		382	(8)	374
		=====	=====	=====
Earnings per share	6			
- basic		4.5p		4.4p
- diluted		4.5p		4.4p
		=====	=====	=====

GROUP INCOME STATEMENT

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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
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 year		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 three months ended June 30, 2006

	First quarter ended June 30		Year ended March 31
	2006	2005	2006
	(unaudited)		
	GBPm	GBPm	GBPm
Profit for the period	464	374	1,548
Actuarial gains (losses) on defined benefit pension obligations	305	(80)	2,122
Net movement on cash flow hedges	(24)	64	(200)
Exchange differences on translation of foreign operations	(54)	10	24
Tax on items taken directly to equity	(87)	10	(588)

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Net gains recognised directly in equity	140	4	1,358
Total recognised income for the period	604	378	2,906
Attributable to:			
Equity shareholders	604	378	2,905
Minority interests	-	-	1
	604	378	2,906

GROUP CASH FLOW STATEMENT
for the three months ended June 30, 2006

	First quarter ended June 30		Year ended March 31
	2006	2005	2006
	(unaudited)		
	GBPm	GBPm	GBPm
Cash flows from operating activities			
Cash generated from operations (note 7 (a))	1,092	972	5,777
Income taxes paid	(90)	(131)	(390)
Net cash inflow from operating activities	1,002	841	5,387
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)	(38)	(88)	(167)
Net purchase of property, plant, equipment and software	(802)	(686)	(2,874)
Interest received	18	37	185
Net (purchase) sale of short term investments and non current asset investments	(729)	(150)	3,221
Net cash used in investing activities	(1,551)	(887)	365
Cash flows from financing activities			
Repurchase of ordinary share capital	(62)	(21)	(339)
Net proceeds from (repayments of) borrowings	282	(14)	(2,946)
Interest paid	(235)	(318)	(1,086)
Equity dividends paid	(5)	-	(907)
Net cash used in financing activities	(20)	(353)	(5,278)
Effects of exchange rate changes	-	29	-
Net (decrease) increase in cash and cash equivalents	(569)	(370)	474
Cash and cash equivalents at beginning of period	1,784	1,310	1,310

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Cash and cash equivalents, net of bank overdrafts, at end of period (note 7 (c))	1,215	940	1,784
	=====	=====	=====
Free cash flow (note 7 (b))	(17)	(126)	1,612
	=====	=====	=====
Increase (decrease) in net debt from cash flows (note 8)	122	235	(199)
	=====	=====	=====

GROUP BALANCE SHEET
at June 30, 2006

	June 30 2006 (unaudited) GBPm	June 30 2005 (unaudited) GBPm	March 31 2006 (unaudited) GBPm
-----	-----	-----	-----
Non current assets			
Goodwill and other intangible assets	1,773	1,343	1,641
Property, plant and equipment	15,375	15,431	15,489
Other non current assets	81	184	84
Deferred tax assets	667	1,460	764
	-----	-----	-----
	17,896	18,418	17,978
	-----	-----	-----
Current assets			
Inventories	138	124	124
Trade and other receivables	4,549	4,210	4,199
Other financial assets	1,052	3,866	434
Cash and cash equivalents	1,391	1,177	1,965
	-----	-----	-----
	7,130	9,377	6,722
	-----	-----	-----
Total assets	25,026	27,795	24,700
	-----	-----	-----
Current liabilities			
Loans and other borrowings	2,888	4,626	1,940
Trade and other payables	6,394	5,722	6,540
Other current liabilities	1,043	1,284	1,000
	-----	-----	-----
	10,325	11,632	9,480
	-----	-----	-----
Total assets less current liabilities	14,701	16,163	15,220
	=====	=====	=====
Non current liabilities			
Loans and other borrowings	7,042	8,094	7,995
Deferred tax liabilities	1,498	1,458	1,505
Retirement benefit obligations	2,222	4,867	2,547
Other non current liabilities	1,755	1,489	1,566
	-----	-----	-----
	12,517	15,908	13,613
	-----	-----	-----
Capital and reserves			
Called up share capital	432	432	432
Reserves	1,701	(226)	1,123
	-----	-----	-----
Total equity shareholders' funds	2,133	206	1,555

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Minority interest	51	49	52
	-----	-----	-----
Total equity	2,184	255	1,607
	-----	-----	-----
	14,701	16,163	15,220
	=====	=====	=====

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, 2006 and 2005, together with the audited results for the year ended March 31, 2006. 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, 2006 were approved by the Board of Directors on May 17, 2006 and published on May 31, 2006. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 237 of the Companies Act 1985.

The financial information set out in these interim financial results has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU). The accounting policies which have been applied to prepare the interim financial results are the same as those used for the preparation of the consolidated financial statements for the year ended March 31, 2006.

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.

As required by the timetable set out in the Undertakings the separation of the financial and operating systems to facilitate the reporting of Openreach as a separate line of business has been completed and the Openreach results are reported separately in this quarter's results. 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.

2 Results of businesses

(a) Operating results

	External revenue GBPm	Internal revenue GBPm	Group revenue GBPm	EBITDA (ii) GBPm	Group operating profit (loss) (ii) GBPm
First quarter ended					
June 30, 2006					
BT Global Services	1,754	401	2,155	211	63
BT Retail	1,977	91	2,068	180	140
BT Wholesale	997	850	1,847	477	192
Openreach	130	1,129	1,259	470	295
Other	6	-	6	24	(31)
Intra-group items (i)	-	(2,471)	(2,471)	-	-
	-----	-----	-----	-----	-----
Total	4,864	-	4,864	1,362	659

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	=====	=====	=====	=====	=====
First quarter ended June 30, 2005 (restated - note 1)					
BT Global Services	1,681	386	2,067	219	67
BT Retail	2,023	97	2,120	155	121
BT Wholesale	968	846	1,814	468	197
Openreach	53	1,241	1,294	507	321
Other	6	-	6	8	(58)
Intra-group items (i)	-	(2,570)	(2,570)	-	-
	-----	-----	-----	-----	-----
Total	4,731	-	4,731	1,357	648
	=====	=====	=====	=====	=====
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. These intra-group trading arrangements are subject to periodic review.

(b) Revenue analysis

	First quarter ended June 30				Year ended
	2006	2005	Better (worse)		March 31
	GBPm	GBPm	GBPm	%	GBPm
Traditional	3,223	3,346	(123)	(4)	13,232
New wave	1,641	1,385	256	18	6,282
	-----	-----			-----
	4,864	4,731	133	3	19,514
	=====	=====			=====
Major Corporate	1,699	1,597	102	6	6,880
Business	588	586	2	-	2,324
Consumer	1,252	1,324	(72)	(5)	5,296
Wholesale/Carrier	1,319	1,218	101	8	4,996
Other	6	6	-	-	18
	-----	-----			-----
	4,864	4,731	133	3	19,514
	=====	=====			=====

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(c) New wave revenue analysis

	First quarter ended June 30				Year ended
	2006	2005	Better	(worse)	March 31
	GBPm	GBPm	GBPm	%	2006
					GBPm
Networked IT services	981	899	82	9	4,065
Broadband	454	314	140	45	1,459
Mobility	71	66	5	8	292
Other	135	106	29	27	466
	-----	-----			-----
	1,641	1,385	256	18	6,282
	=====	=====			=====

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

	First quarter ended June 30				Year ended
	2006	2005	Better	(worse)	March 31
	GBPm	GBPm	GBPm	%	2006
					GBPm
BT Global Services	149	142	(7)	(5)	702
BT Retail	40	35	(5)	(14)	153
BT Wholesale	200	230	30	13	974
Openreach	271	257	(14)	(5)	1,039
Other (including fleet vehicles and property)	55	52	(3)	(6)	274
	-----	-----			-----
	715	716	1	-	3,142
	=====	=====			=====
Transmission equipment	297	373	76	20	1,429
Exchange equipment	14	18	4	22	80
Other network equipment	160	162	2	1	727
Computers and office equipment	74	56	(18)	(32)	281
Software	134	65	(69)	(106)	449
Motor vehicles and other	14	31	17	55	108
Land and buildings	22	11	(11)	(100)	68
	-----	-----			-----
	715	716	1	-	3,142
	=====	=====			=====

3 Operating costs

	First quarter ended June 30		Year ended
	2006	2005	March 31
	GBPm	GBPm	2006
			GBPm
Staff costs before leaver costs	1,256	1,156	4,833
Leaver costs	24	6	133
	-----	-----	-----

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Staff costs	1,280	1,162	4,966
Depreciation and amortisation	703	709	2,884
Payments to telecommunication operators	1,006	1,009	4,045
Other operating costs	1,519	1,436	6,113
Own work capitalised	(253)	(191)	(900)
	-----	-----	-----
Total before specific items	4,255	4,125	17,108
Specific items (note 4)	-	12	138
	-----	-----	-----
Total	4,255	4,137	17,246
	=====	=====	=====

4 Specific items

BT separately identifies and discloses 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. Specific items were previously referred to as exceptional items under UK GAAP.

	First quarter ended June 30		Year ended
	2006	2005	March 31
	GBPm	GBPm	2006
			GBPm
Operating costs			
Creation of Openreach	-	-	70
Property rationalisation costs	-	12	68
	-----	-----	-----
Specific operating costs	-	12	138
Profit on sale of joint ventures	-	-	(1)
	-----	-----	-----
Total specific items before taxation	-	12	(137)
	=====	=====	=====

5 Net finance costs

	First quarter ended June 30		Year ended
	2006	2005	March 31
	GBPm	GBPm	2006
			GBPm
Finance costs before pension interest	175	262	924
Interest on pension scheme liabilities	467	454	1,816
	-----	-----	-----
Finance costs	642	716	2,740
Finance costs before pension income	(24)	(57)	(198)
Expected return on pension scheme			

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assets	(572)	(517)	(2,070)
	-----	-----	-----
Finance income	(596)	(574)	(2,268)
	-----	-----	-----
Net finance costs	46	142	472
	=====	=====	=====
Net finance costs before pensions	151	205	726
Interest associated with pensions	(105)	(63)	(254)
	-----	-----	-----
Net finance costs	46	142	472
	=====	=====	=====

1 Finance costs in the first quarter ended June 30, 2006 and June 30, 2005 include a GBP3 million net credit and GBP12 million net charge, respectively, arising from the re-measurement of financial instruments which under IAS 39 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
	2006	2005	March 31
	millions of shares		
	2006	2005	2006
Basic	8,314	8,471	8,422
Diluted	8,455	8,556	8,537

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

	First quarter ended June 30		Year ended
	2006	2005	March 31
	GBPm		
	2006	2005	2006
	GBPm	GBPm	GBPm
Profit before tax	615	499	2,040
Depreciation and amortisation	703	709	2,884
Associates and joint ventures	(2)	(5)	(16)
Net finance costs	46	142	472
Changes in working capital	(357)	(453)	120
Provision movements, pensions and other	87	80	277
	-----	-----	-----
Cash generated from operations	1,092	972	5,777
	=====	=====	=====

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7 (b) Free cash flow

	First quarter ended June 30		Year ended
	2006	2005	March 31
	GBPm	GBPm	2006
			GBPm
Cash generated from operations	1,092	972	5,777
Income taxes paid	(90)	(131)	(390)
	-----	-----	-----
Net cash inflow from operating activities	1,002	841	5,387
Included in cash flows from investing activities			
Net purchase of property, plant, equipment and software	(802)	(686)	(2,874)
Net purchase of non current asset investments	-	-	(1)
Dividends received from associates	3	-	1
Interest received	15	37	185
Included in cash flows from financing activities			
Interest paid	(235)	(318)	(1,086)
	-----	-----	-----
Free cash flow	(17)	(126)	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) 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
	2006	2005	2006
	GBPm	GBPm	GBPm
Cash at bank and in hand	464	438	511
Short term deposits	927	739	1,454
	-----	-----	-----
Cash and cash equivalents	1,391	1,177	1,965
Bank overdrafts	(176)	(237)	(181)
	-----	-----	-----
	1,215	940	1,784
	=====	=====	=====

8 Net debt

Net debt at June 30, 2006 was GBP7,727 million (June 30, 2005 - GBP8,121 million, March 31, 2006 - GBP7,534 million).

Net debt consists of loans and other borrowings less current asset investments

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

This definition of net debt measures balances at the future cash flows due to arise on maturity of financial instruments and removes the balance sheet adjustments made from the re-measurement of hedged risks under fair value hedges and the use of the amortised cost method as required by IAS 39. In addition, the gross balances are adjusted to take account of netting arrangements amounting to GBP173 million. Net debt is a non GAAP measure since it is not defined in IFRS but it is a key indicator used by management in order to assess operational performance.

(a) Analysis

	At June 30	At March 31	
	2006	2005	
	GBPm	GBPm	
	2006	2006	
	GBPm	GBPm	
Loans and other borrowings	9,930	12,720	9,935
Cash and cash equivalents	(1,391)	(1,177)	(1,965)
Other current financial assets(1)	(1,036)	(3,704)	(365)
	-----	-----	-----
	7,503	7,839	7,605
Adjustments:			
To retranslate currency denominated balances at swapped rates where hedged	371	486	121
To recognise borrowings at net proceeds and unamortised discount	(147)	(212)	(192)
Other	-	8	-
	-----	-----	-----
Net debt	7,727	8,121	7,534
	=====	=====	=====

After allocating the element of the adjustments which impact loans and other borrowings, gross debt at June 30, 2006 was GBP9,975 million (June 30, 2005 - GBP12,686 million, March 31, 2006 - GBP9,686 million).

(1) Excluding derivative financial instruments of GBP16 million, GBP162 million and GBP69 million at June 30, 2006 and 2005 and March 31, 2006, respectively.

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

	First quarter ended June 30		Year ended
	2006	2005	March 31
	GBPm	GBPm	2006
	GBPm	GBPm	GBPm
Net debt at beginning of period	7,534	7,893	7,893
Increase (decrease) in net debt resulting from cash flows	122	235	(199)
Net debt assumed or issued on acquisitions	-	1	-
Currency movements	63	(14)	(75)
Other non-cash movements	8	6	(85)

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Net debt at end of period	----- 7,727 =====	----- 8,121 =====	----- 7,534 =====
---------------------------	-------------------------	-------------------------	-------------------------

9 Statement of changes in equity

	First quarter ended June 30		Year ended March 31
	2006	2005	2006
	GBPm	GBPm	GBPm
Shareholders' funds	1,555	45	45
Minority interest	52	50	50
	-----	-----	-----
	1,607	95	95
Effect of adoption of IAS 32 and 39	-	(209)	(209)
	-----	-----	-----
Fund (deficit) at beginning of period	1,607	(114)	(114)
Total recognised income for the period	604	378	2,906
Share based payment	20	2	65
Issues of shares	1	2	4
Net purchase of treasury shares	(47)	(12)	(344)
Dividends on ordinary shares	-	-	(912)
Minority interest	(1)	(1)	2
	-----	-----	-----
Net changes in equity for the financial period	577	369	1,721
Equity at end of period			
Shareholders' funds	2,133	206	1,555
Minority interest	51	49	52
	-----	-----	-----
	2,184	255	1,607
	=====	=====	=====

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

	First quarter ended June 30		Year ended March 31
	2006	2005	2006
	GBPm	GBPm	GBPm
Operating profit	659	636	2,495
Specific items (note 4)	-	12	138
Depreciation and amortisation (note 3)	703	709	2,884
	-----	-----	-----
EBITDA before specific items	1,362	1,357	5,517
	=====	=====	=====

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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 March 31	
	2006	2005	2006
Net income attributable to Shareholders (GBPm)	414	393	1,063
Earnings per ADS (GBP)			
- basic	0.50	0.46	1.26
- diluted	0.49	0.46	1.25

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

Shareholders' equity, calculated in accordance with US GAAP, is GBP159 million at June 30, 2006 (June 30, 2005 - GBP231 million deficit, March 31, 2006 - GBP158 million deficit).

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; growth in new wave revenue, mainly from networked IT services, broadband and mobility growth; expanding international business; implementation of BT's 21st Century Network and the rollout programme, and the introduction of next generation services; and 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

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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)

By: /s/ Patricia Day

Patricia Day, Assistant Secretary.

Date 27 July, 2006