

May 20, 2004

## **PRELIMINARY RESULTS – YEAR TO MARCH 31, 2004**

### **FOURTH QUARTER HIGHLIGHTS**

- Group turnover up 1 per cent, excluding the impact of mobile termination rate reductions, at £4,787 million. Maintained after mobile termination rate reductions
- New wave turnover of £1,078 million, up 38 per cent
- Profit before taxation, goodwill amortisation and exceptional items of £459 million, down 6 per cent. Up 8 per cent before leaver costs
- Earnings per share before goodwill amortisation and exceptional items, maintained at 3.9 pence. Up 13 per cent before leaver costs
- Net debt of £8,425 million, 12 per cent lower than previous year
- ICT contract wins of £2.3 billion in the quarter
- Broadband end users approaching 2.5 million at May 14, 2004

### **FULL YEAR HIGHLIGHTS**

- Group turnover maintained, excluding the impact of mobile termination rate reductions, at £18,519 million. Down 1 per cent after mobile termination rate reductions
- New wave turnover of £3,387 million, up 30 per cent
- Profit before taxation, goodwill amortisation and exceptional items of £2,016 million, up 10 per cent
- Earnings per share before goodwill amortisation and exceptional items of 16.9 pence, up 19 per cent
- Full year dividend of 8.5 pence per share, up 31 per cent
- Free cash flow before acquisitions, disposals and dividends of £2.1 billion, up 21 per cent
- Further significant improvements in customer satisfaction

The full profit and loss account, cash flow statement and balance sheet, drawn up in accordance with UK generally accepted accounting principles, from which this information is extracted is set out on pages 18 to 23.

## **Chairman's statement**

Sir Christopher Bland, Chairman, said:

"The group has continued to make good progress this year, and delivered strong financial results while continuing to transform the business. New wave revenues, including ICT, broadband, mobility and managed services, grew by 30 per cent to £3,387 million. Earnings per share\* grew by 19 per cent to 16.9 pence, almost doubling in two years.

"We generated free cash flow of over £2 billion and reduced net debt to £8.4 billion while continuing to invest for the future. Our net debt is now one third of the level three years ago.

"I am pleased to announce a full year dividend of 8.5 pence which is 31 per cent up on last year and four times higher than two years ago.

"These results demonstrate our continuing ability to reduce debt, reward our shareholders and build for the future."

## **Chief Executive's statement**

Ben Verwaayen, Chief Executive, said:

"In our transformation process the fourth quarter was very encouraging. The results from our new wave businesses show our strategy is working. We grew new wave revenues by 38 per cent in the fourth quarter which more than offset the decline in revenue from the traditional business. The ICT order book continues to grow strongly with £2.3 billion of orders in the fourth quarter, taking orders for the full year to more than £7 billion.

"We are enabling broadband Britain. We now have approaching 2.5 million connections, a 162 per cent increase in a year. We aim to have over 99 per cent of the UK broadband enabled within a year, putting the UK towards the top of the broadband league.

"Our transformation of the business will continue to accelerate. We expect the environment to remain challenging but we will also increase our investment to build on the significant progress already achieved. Our actions and future plans give us confidence in our strategy for the future."

\*Before goodwill amortisation and exceptional items.

**RESULTS FOR THE FOURTH QUARTER AND  
YEAR ENDED MARCH 31, 2004**

	Fourth Quarter			Year		Better (worse) %
	2004 £m	2003 £m	Better (worse) %	2004 £m	2003 £m	
Group turnover	4,787	4,778	-	18,519	18,727	(1)
EBITDA before exceptional items	1,412	1,511	(7)	5,816	5,805	-
EBITDA before exceptional items and leaver costs	1,561	1,582	(1)	6,018	6,081	(1)
Profit before taxation						
- before goodwill amortisation and exceptional items	459	490	(6)	2,016	1,829	10
- after goodwill amortisation and exceptional items	423	1,717	(75)	1,948	3,157	(38)
Earnings per share						
- before goodwill amortisation, exceptional items and leaver costs	5.1p	4.5p	13	18.5p	16.5p	12
- before goodwill amortisation and exceptional items	3.9p	3.9p	-	16.9p	14.2p	19
- after goodwill amortisation and exceptional items	3.5p	19.1p	(82)	16.4p	31.2p	(47)
Capital expenditure	844	724	(17)	2,673	2,445	(9)
Free cash flow	819	931	(12)	2,071	1,708	21
Net debt				8,425	9,573	12

The commentary focuses on the results before goodwill amortisation and exceptional items. This is consistent with the way that financial performance is measured by management and we believe allows a meaningful comparison to be made of the trading results of the group.

The full profit and loss account, cash flow statement and balance sheet are provided on pages 18 to 23. A reconciliation of EBITDA to group operating profit is provided on page 31.

## **GROUP RESULTS**

### **Fourth quarter results**

During the fourth quarter we continued to strengthen our position whilst driving the transformation of our business. Turnover was maintained year on year at £4,787 million. Excluding the regulatory reductions to mobile termination rates the underlying turnover increased by 1.4 per cent, which compares to a decline of 1.4 per cent in the third quarter. The operating results in the quarter were impacted by leaver costs of £149 million (£71 million last year). Excluding leaver costs, earnings per share before goodwill amortisation and exceptional items increased by 13 per cent to 5.1 pence compared to quarter four last year.

The growth in new wave turnover accelerated to 38 per cent, reaching £1,078 million in the quarter, compared to growth of 25 per cent and 31 per cent in the second and third quarters, respectively. New wave turnover accounted for 23 per cent of the group's turnover compared to 16 per cent in the fourth quarter of last year. New wave turnover is mainly generated from Information and Communications Technology (ICT) solutions, broadband, mobility and managed services. Broadband turnover grew by 112 per cent to £165 million. The growth of ICT turnover to £805 million reflects our strong order book, including our new NHS contracts which generated revenues of £77 million in the quarter. The fourth quarter is generally the strongest quarter and builds on the momentum gained during the year.

The strong growth in new wave turnover, our ICT order book and the growth in broadband show our strategy is working. We have announced a strategic go-to-market communications and IT alliance with HP which will address mutual growth opportunities in the global information and communications market place. Under this alliance BT and HP have entered into managed services agreements with a combined value of \$1.5 billion over the next seven years. To build on this success we will be making further investment within our new wave businesses to accelerate the pace of this transformation.

Turnover from the group's traditional businesses declined by 7 per cent. This decline reflects regulatory intervention, competition, price reductions and technological changes that we are using to drive customers from traditional services to better value and more flexible new wave services, such as broadband and IPVPN's.

Total consumer turnover in the fourth quarter was 2 per cent lower (1 per cent lower excluding the impact of reductions to mobile termination rates) year on year, compared to the 3 per cent decline last quarter. The underlying 12 month rolling average revenue per

customer household (net of mobile termination charges) of £268 declined by £1 compared to the last quarter.

With effect from July 1, 2004 we are building on the success of the BT Together family of packages and simplifying our pricing structure. This will bring low call charges and reductions in line rental to our three BT Together fixed monthly fee packages and will make it easier for customers to compare the value they get from BT with similar offerings from competitors. Existing standard rate customers will be moving to join the existing 5 million BT Together option 1 customers.

The success of broadband and the BT Together packages provide greater certainty to our customers and to BT with a committed revenue stream.

BT Business Plan, launched in January 2003, has successfully increased take up by over 23 per cent compared to the third quarter, serving 267,000 business locations (175,000 customers) by March 31, 2004. This, together with our BT Local Business activity has helped mitigate the decline in the traditional business as well as the growth in new wave turnover of 43 per cent. As a result, turnover from smaller and medium sized businesses declined by only 1 per cent (maintained excluding the impact of reductions to mobile termination rates), compared to the 6 per cent decline last quarter.

Major Corporate (UK and international) turnover increased by 8 per cent to £1,652 million with the strong growth in new wave turnover offsetting the decline in traditional UK services. There is a continued migration from traditional voice only services to managed ICT solutions contracts. The fourth quarter typically benefits from higher solutions revenues and in addition the new NHS contracts have contributed to the turnover in the quarter. ICT contract wins amounted to more than £2 billion for the second successive quarter.

Wholesale (UK and Global Carrier) turnover fell by 7 per cent (4 per cent decrease excluding the impact of reductions to mobile termination rates). Growth in new wave turnover of 83 per cent from our UK Wholesale business was driven by broadband and managed services, which compensated for the majority of the decline in our UK Wholesale prices. The international carrier business turnover declined by 26 per cent in the fourth quarter partly impacted by lower revenues from AT&T as well as the general decline in global carrier revenues.

Our estimates of one of our measures of market share, as measured by the volume of fixed to fixed voice minutes, are based on our actual minutes, market data provided by Ofcom and an extrapolation of the historical trends. As a result of revisions to Ofcom's

historical data, which were announced on May 19, we have revised our historical market share estimates. Our own actual minutes are unchanged. Ofcom's revisions have added approximately 600 million minutes to the fixed to fixed voice market in the first quarter of this year.

BT's estimated consumer market share declined by 0.5 per cent in the fourth quarter to 69 per cent compared to last quarter, and by an estimated 2.9 per cent compared to the fourth quarter of last year. The estimated business market share declined by 0.8 per cent in the fourth quarter to 40 per cent compared to last quarter, and by an estimated 3.6 per cent compared to the fourth quarter of last year.

Group operating costs before goodwill amortisation, exceptional items and leaver costs were reduced by 1 per cent compared to the fourth quarter of last year reflecting the group's continued focus on operational efficiency and effectiveness initiatives offset by investment in new wave businesses. Leaver costs increased in the quarter to £149 million (£71 million last year) with the number of staff in post declining by 5 per cent since March 31, 2003 to 99,900 employees. Net staff costs, excluding leaver costs, increased by £40 million to £875 million due to the impact of increases in pay rates, national insurance and the SSAP24 pension charge, offset by improved efficiency. Payments to other telecommunication operators were £58 million (6 per cent) higher than last year mainly reflecting lower net charges in the prior year. Other operating costs (excluding goodwill amortisation and exceptional items) were reduced by £91 million largely due to efficiency cost savings arising mainly from marketing, billing and general overheads.

Depreciation was £37 million lower than the fourth quarter of last year at £740 million reflecting more efficient capital expenditure over recent years.

As a result of these cost reductions the group operating profit margin before goodwill amortisation, exceptional items and leaver costs was 17.1 per cent, an increase of 0.3 percentage points on the fourth quarter of last year.

Group operating profit before goodwill amortisation, exceptional items and leaver costs increased by 2 per cent compared to the fourth quarter of last year. This performance reflects improvement in BT Global Services which achieved its first positive operating profit in the quarter, offset by lower profits in the group's Retail and UK Wholesale businesses. The £78 million increase in leaver costs means that group operating profit, before goodwill amortisation and exceptional items, after leaver costs was 8 per cent lower than the fourth quarter of last year.

BT's share of associates and joint ventures operating losses before goodwill amortisation and exceptional items was £6 million in the quarter (£19 million profit last year).

Net interest payable before exceptional items was £222 million for the quarter, an improvement of £44 million against last year as a result of the reduction in the level of net debt. Profit before taxation, goodwill amortisation and exceptional items of £459 million in the quarter decreased by 6 per cent and includes the impact of the £78 million increase in leaver costs.

The taxation rate on the profit before exceptional items and goodwill amortisation was 26.8 per cent in the quarter (32.4 per cent last year). The lower effective tax rate reflects reduced overseas losses for which relief is not available and greater tax efficiency in the group.

Earnings per share before goodwill amortisation and exceptional items were maintained compared to the fourth quarter last year at 3.9 pence. Earnings per share before goodwill amortisation, exceptional items and leaver costs were up 13 per cent at 5.1 pence for the quarter.

### **Full year results**

Group turnover decreased by 1 per cent to £18,519 million in the year (maintained excluding the impact of reductions to mobile termination rates). New wave turnover grew by 30 per cent to £3,387 million in the year driven by strong growth in ICT solutions and broadband. This offsets the decline in traditional turnover of 5 per cent (excluding the impact of reductions to mobile termination rates). New wave turnover represents 18 per cent of the group's turnover for the year compared to 14 per cent last year.

Group operating profit before goodwill amortisation and exceptional items at £2,892 million for the year was 4 per cent higher than the prior year. The main reasons for this increase include cost efficiencies achieved during the year, improved performance of BT Global Services and lower leaver costs.

BT's share of associates and joint ventures operating losses before goodwill amortisation and exceptional items was £8 million (£181 million profit last year). The prior year includes the results of our interest in Cegetel which was sold in January 2003.

Net interest payable before exceptional items was £886 million for the year, an improvement of £260 million against last year as a result of the reduction in the level of net debt.

The above factors have resulted in the group achieving a profit before taxation, goodwill amortisation and exceptional items of £2,016 million, a 10 per cent increase, reflecting the improved operating results of the group and lower net interest costs.

The taxation charge for the year was £568 million on the profit before exceptional items and goodwill amortisation, an effective rate of 28.2 per cent (32.7 per cent last year).

Earnings per share before goodwill amortisation and exceptional items were 19 per cent higher at 16.9 pence for the year.

### **Exceptional items and goodwill**

Net exceptional items in the quarter reduced profit before taxation by £33 million. This includes our share of an exceptional goodwill impairment charge made by one of our associates, Albacom, which reduced BT's profit before tax by £26 million and net exceptional operating costs of £7 million.

Other exceptional items in the full year include a charge for the premium on buying back bonds (£89 million), a credit from the one off interest recognised on full repayment of loan notes received as part of the original consideration from the disposal of Yell (£34 million) and the profit on disposal of the group's 7.8 per cent interest in Inmarsat (£32 million). These net exceptional items resulted in a full year charge before tax of £56 million.

Goodwill amortisation was £3 million for the quarter (£6 million last year). Earnings per share after goodwill amortisation and exceptional items were 3.5 pence in the quarter compared to 19.1 pence last year reflecting the net exceptional credit in 2002/3 relating to the sale of our interest in Cegetel. This also had an impact on the full year earnings per share after goodwill amortisation and exceptional items which were 16.4 pence compared to 31.2 pence last year.

### **Dividends**

In line with the policy announced in November 2003, the Board recommends a final dividend of 5.30 pence per share to shareholders, amounting to £454 million. This will be paid, subject to shareholder approval, on September 6, 2004 to shareholders on the register on August 6, 2004. The full year dividend has increased by 31 per cent to 8.50 pence per share, compared to 6.50 pence last year. This year's dividend pay out ratio is 50 per cent of earnings before goodwill amortisation and exceptional items and we expect this to increase to around 60 per cent for 2005/6.



## Cash flow and net debt

Cash inflow from operating activities amounted to £1,568 million in the quarter. The strong cash generation enabled the early payment of £380 million deficiency contributions to the BT Pension Scheme, which represents most of the deficiency payments for 2004/5 and 2005/6. The full year cash flow from operating activities amounted to £5,389 million.

Return on investments and servicing of finance reflected a net cash inflow of £148 million compared to an outflow of £528 million in the fourth quarter last year. This movement was driven by lower interest payments following the reduction in net debt and receipt of funds (£303 million) on restructuring a significant part of the group's swap portfolio hedging foreign exchange and interest rate exposures. This will be offset by higher cash interest payments in future years. The prior year fourth quarter included an interest payment of £293 million on closing out £2.6 billion of fixed interest rate swaps following receipt of the Cegetel sale proceeds. The full year return on investment and servicing of finance reflected a net cash outflow of £527 million compared to £1,506 million last year influenced by the same factors.

The net cash outflow on fixed asset purchases and sales was £765 million in the quarter which compares to £632 million last year reflecting the rising investment in our network transformation programme. The full year net cash outflow was £2,477 million compared to £2,381 million last year. Capital expenditure for 2004/5 is expected to rise from this year's level of £2,673 million, but remain within its £3 billion annual target, as the group invests in its 21<sup>st</sup> century network programme. This is designed to support the next generation of services and revenues, whilst enhancing the customer experience and generating significant cost savings.

Free cash flow (before acquisitions and disposals, dividends and financing) was a net inflow of £819 million in the quarter compared to £931 million last year and the full year inflow was £2,071 million compared to £1,708 million last year.

The share buyback programme continued with the repurchase of 48 million shares for £86 million in the quarter. This brings the full year position to the repurchase of 81 million shares for £144 million.

Net debt at March 31, 2004 was £8,425 million, 12 per cent below last year. We continue to target a net debt level of around £7 billion in 2006/7.

**Pensions**

The FRS17 position at March 31, 2004 showed a deficit of £3.6 billion, net of tax, being a reduction of £2.7 billion (43 per cent) since March 31, 2003. However, pension costs will continue to be accounted for in accordance with SSAP24 for 2004/5.

**Customer satisfaction**

BT has an extensive market research programme conducted by external agencies which focuses on the level and causes of customer dissatisfaction. The group achieved a further 4 percentage point improvement in the level of customer dissatisfaction in the quarter to 22 per cent for the year which follows the improvement of 37 per cent in the 2003 financial year.

**Broadband**

There was an installed base of 2.45 million Wholesale broadband lines by May 14, 2004, an increase of 162 per cent on the number of connections 12 months ago, with net additions in the quarter growing at more than 35,000 per week. The increasing base is reflected in a 112 per cent increase in broadband revenues to £165 million in the quarter which brings the full year revenue to £491 million, an increase of 107 per cent over last year.

During the fourth quarter, BT announced four cutting-edge consumer broadband products and services called Flexible Bandwidth, BT Rich Media, BT Communicator and BT Remote Management System. These services will provide our customers with additional capabilities from broadband and stimulate further take up.

On April 27, 2004, we announced the roll out of ADSL broadband to a further 1,128 exchanges by no later than Summer 2005. This will help bring broadband to exchanges serving 99.6 per cent of UK homes and businesses, compared to the current coverage of 90 per cent. This will give the UK one of the most extensive broadband networks in the world.

**Outlook**

The strong growth in new wave turnover, our ICT order book and the growth in broadband show our strategy is working. We will build on this success and accelerate the transformation of our business.

We remain committed to our strategy and are confident in our ability to deliver our key strategic goals.

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The Annual Report and Form 20-F is expected to be published on June 2, 2004.

The Annual General Meeting of BT Group plc will be held in Cardiff on July 14, 2004.

## OPERATING PERFORMANCE BY LINE OF BUSINESS

<i>Fourth quarter ended</i>	Group turnover	Group operating profit (loss) (iii)	EBITDA(iii)	Capital expenditure
<i>March 31, 2004</i> (i)	£m	£m	£m	£m
BT Retail	3,520	310	346	46
BT Wholesale	2,708	397	888	544
BT Global Services	1,649	7	163	160
Other	15	(43)	15	94
Intra-group items (ii)	(3,105)	-	-	-
<b>Total</b>	<b><u>4,787</u></b>	<b><u>671</u></b>	<b><u>1,412</u></b>	<b><u>844</u></b>

<i>Year ended</i>	Group turnover	Group operating profit (loss) (iii)	EBITDA (iii)	Capital expenditure
<i>March 31, 2004</i> (i)	£m	£m	£m	£m
BT Retail	13,534	1,434	1,596	118
BT Wholesale	10,859	1,681	3,600	1,809
BT Global Services	5,782	(105)	508	479
Other	35	(118)	112	267
Intra-group items (ii)	(11,691)	-	-	-
<b>Total</b>	<b><u>18,519</u></b>	<b><u>2,892</u></b>	<b><u>5,816</u></b>	<b><u>2,673</u></b>

- (i) See note 2 on pages 24 to 28 for prior year figures.
- (ii) Elimination of intra-group turnover between businesses, which is included in the turnover of the originating business.
- (iii) Before goodwill amortisation and exceptional items.

There is extensive trading between BT's lines of business and the line of business profitability is dependent on the transfer price levels. The intra-group trading arrangements are subject to review and changed with effect from April 1, 2003 in certain circumstances to reflect reorganisations within the group and regulatory changes. The comparative figures for the lines of business have been restated to reflect these changes but there is no impact at a group level.

The line of business commentaries refer to EBITDA, which is defined as group operating profit before depreciation and amortisation.

**BT Retail**

	Fourth quarter ended March 31			Year ended March 31		
	2004 £m	2003* £m	Better (worse) %	2004 £m	2003* £m	Better (worse) %
Group turnover	<u>3,520</u>	<u>3,554</u>	(1)	<u>13,534</u>	<u>13,882</u>	(3)
Gross margin	918	981	(6)	3,722	3,936	(5)
Sales, general and administration costs	<u>572</u>	<u>564</u>	(1)	<u>2,126</u>	<u>2,207</u>	4
EBITDA	346	417	(17)	1,596	1,729	(8)
Depreciation	<u>36</u>	<u>48</u>	25	<u>162</u>	<u>201</u>	19
Operating profit	<u>310</u>	<u>369</u>	(16)	<u>1,434</u>	<u>1,528</u>	(6)
Operating profit before leaver costs	<u>392</u>	<u>385</u>	2	<u>1,546</u>	<u>1,567</u>	(1)
Capital expenditure	<u>46</u>	<u>40</u>	(15)	<u>118</u>	<u>109</u>	(8)

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

Growth in new wave turnover of 48 per cent, the highest ever quarterly growth, was offset by the 9 per cent decline in traditional turnover which resulted in an overall decline of 1 per cent compared to the fourth quarter of last year. After adjusting for the regulatory reductions to mobile termination rates, turnover was maintained.

	Fourth quarter ended March 31			Year ended March 31		
	2004 £m	2003* £m	Better (worse) %	2004 £m	2003* £m	Better (worse) %
<b>BT Retail turnover</b>						
Voice Services	2,196	2,397	(8)	9,012	9,665	(7)
Intermediate Products	<u>578</u>	<u>652</u>	(11)	<u>2,356</u>	<u>2,534</u>	(7)
<b>Traditional</b>	<u>2,774</u>	<u>3,049</u>	(9)	<u>11,368</u>	<u>12,199</u>	(7)
ICT	594	440	35	1,734	1,502	15
Broadband	101	42	140	307	131	134
Mobility	34	19	79	84	42	100
Other	<u>17</u>	<u>4</u>	n/m	<u>41</u>	<u>8</u>	n/m
<b>New Wave</b>	<u>746</u>	<u>505</u>	48	<u>2,166</u>	<u>1,683</u>	29
<b>Total</b>	<u>3,520</u>	<u>3,554</u>	(1)	<u>13,534</u>	<u>13,882</u>	(3)
Sales to other BT businesses incl. above	277	240	15	904	903	-

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

Turnover from voice services was 8 per cent lower than the fourth quarter of last year.

The overall market for fixed to fixed voice call minutes is estimated to have declined by 1 per cent compared to the fourth quarter of last year, partly reflecting the migration to new wave products and services such as IPVPN's and substitution by e-mail, instant messaging and mobile services.

BT Group's total originating measured call volumes have decreased by 5 per cent in the quarter versus the fourth quarter last year. Internet and data related call volumes decreased by 6 per cent reflecting the slow down in the growth of flat rate internet access products offset by the migration to broadband which is not measured in minutes. Total geographic (local, national and international) call volumes declined by 7 per cent which is similar to the trend in previous quarters and largely reflects the decline in the market and loss of market share. The rate of fixed to mobile call volume decline was maintained at 2 per cent, the same decline as the third quarter.

Turnover from intermediate products decreased by 11 per cent compared to the fourth quarter of last year mainly driven by a decline in retail private circuits and ISDN as customers migrate to cheaper wholesale partial private circuits and new wave products including broadband and IPVPN.

BT Retail's rate of new wave turnover growth increased to 48 per cent compared to the fourth quarter of last year. ICT turnover increased by 35 per cent, reflecting the growth in new IP based services, and additional turnover from contract wins, including the NHS, partly offset by a decline in business telephony equipment. Broadband turnover continued to grow rapidly at 140 per cent in the quarter, with 928,000 BT Retail customers at March 31, 2004. In November, BT launched BT Mobile Home Plan through retail stores. BT now has a consumer and corporate mobile customer base of 144,000. Total BT Retail turnover from mobility services increased by 79 per cent.

Our mobility and convergence strategy took a major step forward with the announcement of our partnership with Vodafone which will create one of the world's first fully converged fixed-mobile communications service. We will be launching a convergent handset, Project Bluephone, in collaboration with Alcatel, Ericsson and Motorola, by the end of the year. These are critical steps to convergence that will mean customers no longer need to own multiple phones and their single device will switch seamlessly between networks. Our goal is to generate around £1 billion of annual mobility and convergence revenues for BT Group within five years.

As we build our broadband and mobility customer base we will incur subscriber acquisition costs which we write off as incurred. The creation and development of new value

added services will involve the recognition of upfront development costs. In addition, we will undertake additional advertising to support our new service propositions and reinforce our position in our new wave growth businesses.

The total number of BT Retail lines, which includes voice, digital and broadband, increased by 0.2 per cent to 29.6 million compared to March 31, 2003, reflecting the continued growth in broadband partially offset by declining PSTN and ISDN lines.

The gross margin reduced by 1.5 percentage points to 26.1 per cent compared to the fourth quarter of last year, reflecting lower prices partly offset by lower charges from BT Wholesale in line with market and regulatory prices, and the change in the revenue mix from traditional business to new wave services.

Cost transformation programmes continue to generate significant savings with £71 million before leaver costs (15 per cent) achieved in the traditional business in the quarter resulting in full year savings of £228 million. BT Retail incurred leaver costs of £82 million in the quarter, an increase of £66 million over last year.

Operating profit in the quarter of £310 million was 16 per cent lower than the prior year. However, excluding the impact of leaver costs, operating profit increased by 2 per cent.

### BT Wholesale

	Fourth quarter ended March 31			Year ended March 31		
	2004 £m	2003* £m	Better (worse) %	2004 £m	2003* £m	Better (worse) %
External turnover	864	900	(4)	3,445	3,525	(2)
Internal turnover	<u>1,844</u>	<u>1,915</u>	(4)	<u>7,414</u>	<u>7,722</u>	(4)
Group turnover	<u>2,708</u>	<u>2,815</u>	(4)	<u>10,859</u>	<u>11,247</u>	(3)
Total operating costs before depreciation	1,841	1,890	3	7,351	7,691	4
Other operating income	<u>21</u>	<u>31</u>	(32)	<u>92</u>	<u>125</u>	(26)
EBITDA	888	956	(7)	3,600	3,681	(2)
Depreciation	<u>491</u>	<u>485</u>	(1)	<u>1,919</u>	<u>1,923</u>	-
Operating profit	<u>397</u>	<u>471</u>	(16)	<u>1,681</u>	<u>1,758</u>	(4)
Capital expenditure	<u>544</u>	<u>478</u>	(14)	<u>1,809</u>	<u>1,652</u>	(10)

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

BT Wholesale's turnover for the quarter of £2,708 million was 4 per cent lower, and operating profit of £397 million was 16 per cent lower than the fourth quarter of last year.

Excluding leaver costs, operating profit was 11 per cent lower than the fourth quarter of last year.

External turnover fell by £36 million (4 per cent) almost all of which is accounted for by price reductions on mobile call termination rates which have no impact on profitability. New wave external turnover has continued to show strong growth with an 83 per cent increase to £115 million reflecting the increase in broadband volumes and managed services. This growth offsets the reduction in traditional turnover after excluding the impact of the reduced mobile call termination rates. Traditional turnover was impacted by the reductions from the regulatory Network Charge Control (NCC) pricing formulae resulting in weighted average price reductions of around 7 per cent across the basket of relevant products. The continued migration from retail private circuits to partial private circuits has also reduced traditional turnover.

Turnover from other parts of BT of £1,844 million in the quarter decreased by 4 per cent reflecting lower call and retail private circuit volumes, reductions on mobile call termination rates and other price reductions.

Despite an increase in network volumes, BT Wholesale's operating costs of £1,841 million excluding depreciation and exceptional items, decreased by £49 million (3 per cent) compared to the fourth quarter of last year. Leaver costs in the quarter were £42 million, an increase of £19 million compared to last year. The focus on improved operational efficiencies has resulted in efficiency savings of £77 million in the quarter, taking the full year total to £280 million, well ahead of the full year target of £250 million.

### BT Global Services

	Fourth quarter ended March 31			Year ended March 31		
	2004 £m	2003* £m	Better (worse) %	2004 £m	2003* £m	Better (worse) %
Group turnover	1,649	1,526	8	5,782	5,417	7
EBITDA	163	89	83	508	238	113
Operating profit (loss)	7	(79)	n/m	(105)	(375)	72
Capital expenditure	160	152	(5)	479	445	(8)

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

BT Global Services has produced another quarter of improved profitability, generating a positive operating profit for the first time. The operating profit of £7 million represents an £86 million improvement on last year.



Turnover for the quarter rose by 8 per cent to £1,649 million. Solutions turnover grew by 12 per cent reflecting the conversion of the strong order intake over the past twelve months into turnover. BT Syntegra produced another strong quarter's results, with turnover from the NHS contracts contributing towards the growth of 32 per cent. Global Products turnover grew by 10 per cent, benefiting from growth in Multi Protocol Label Switching (MPLS).

For the second quarter in succession orders were in excess of £2 billion with Solutions and BT Syntegra orders of £2.3 billion in the quarter, our highest ever in a single quarter. Solutions has been awarded the leading role in a 7 year contract worth an estimated £533 million, to procure, integrate and manage networking services for the new national network for the NHS. In total, ICT contract wins for the last 12 months amount to more than £7 billion, providing a committed revenue stream over a number of years. Further large contract wins are likely to lead to increased upfront bid and contract set up costs.

EBITDA increased by 83 per cent from the fourth quarter of last year to £163 million. Higher turnover, together with lower network, selling, general and administration costs following continuing cost reduction initiatives helped generate a £7 million operating profit. The majority of this improvement arose in the Global Products and Solutions businesses.

Global Services' transformation is continuing. To further enhance BT's position in the ICT market we will devote additional resources to this sector in 2004/5, in particular by strengthening our international network centric solutions and systems integration capabilities.

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**GROUP PROFIT AND LOSS ACCOUNT**  
**for the three months ended March 31, 2004**

(unaudited)	Notes	<b>Before goodwill amortisation and exceptional items £m</b>	Goodwill amortisation and exceptional items (note 6) £m	Total £m
<b>Group turnover</b>	2, 4	<b>4,787</b>	-	4,787
Other operating income		<b>44</b>	-	44
Operating costs	3	<b><u>(4,160)</u></b>	<u>(10)</u>	<b><u>(4,170)</u></b>
Group operating profit (loss)	2	<b>671</b>	(10)	661
Group's share of operating losses of associates and joint ventures	4	<b><u>(6)</u></b>	<u>(26)</u>	<b><u>(32)</u></b>
Total operating profit (loss)		<b>665</b>	(36)	629
Profit on sale of fixed asset investments and group undertakings		<b>4</b>	-	4
Profit on sale of property fixed assets		<b>12</b>	-	12
Net interest payable	7	<b><u>(222)</u></b>	<u>-</u>	<b><u>(222)</u></b>
<b>Profit (loss) before taxation</b>		<b>459</b>	(36)	423
<b>Taxation</b>		<b><u>(123)</u></b>	<u>2</u>	<b><u>(121)</u></b>
<b>Profit (loss) after taxation</b>		<b>336</b>	(34)	302
Minority interests		<b><u>1</u></b>	<u>-</u>	<b><u>1</u></b>
<b>Profit (loss) attributable to shareholders</b>		<b><u>337</u></b>	<u>(34)</u>	<b><u>303</u></b>
<b>Earnings per share</b>	9			
- basic		<b><u>3.9p</u></b>		<b><u>3.5p</u></b>
- diluted		<b><u>3.9p</u></b>		<b><u>3.5p</u></b>

**GROUP PROFIT AND LOSS ACCOUNT**  
**for the three months ended March 31, 2003**

(unaudited)	Notes	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items (note 6) £m	Total £m
<b>Group turnover</b>	2, 4	<b>4,778</b>	-	4,778
Other operating income		<b>67</b>	-	67
Operating costs	3	<b>(4,112)</b>	<u>(4)</u>	<b>(4,116)</b>
Group operating profit (loss)	2	<b>733</b>	(4)	729
Group's share of operating profits (losses) of associates and joint ventures	4	<u><b>19</b></u>	<u>(2)</u>	<u>17</u>
Total operating profit (loss)		<b>752</b>	(6)	746
Profit on sale of fixed asset investments and group undertakings	5	-	1,526	1,526
Profit on sale of property fixed assets		<b>4</b>	-	4
Net interest payable	7	<u><b>(266)</b></u>	<u>(293)</u>	<u>(559)</u>
<b>Profit before taxation</b>		<b>490</b>	1,227	1,717
<b>Taxation</b>		<u><b>(159)</b></u>	<u>88</u>	<u>(71)</u>
<b>Profit after taxation</b>		<b>331</b>	1,315	1,646
Minority interests		<u><b>5</b></u>	<u>-</u>	<u>5</u>
<b>Profit attributable to shareholders</b>		<u><b>336</b></u>	<u>1,315</u>	<u>1,651</u>
<b>Earnings per share</b>	9			
- basic		<u><b>3.9p</b></u>		<u>19.1p</u>
- diluted		<u><b>3.9p</b></u>		<u>19.0p</u>

**GROUP PROFIT AND LOSS ACCOUNT**  
**for the year ended March 31, 2004**

	Notes	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items (note 6) £m	Total £m
<b>Group turnover</b>	2, 4	<b>18,519</b>	-	18,519
Other operating income		<b>177</b>	-	177
Operating costs	3	<b>(15,804)</b>	<u>(19)</u>	<u>(15,823)</u>
Group operating profit (loss)	2	<b>2,892</b>	(19)	2,873
Group's share of operating losses of associates and joint ventures	4	<u>(8)</u>	<u>(26)</u>	<u>(34)</u>
Total operating profit (loss)		<b>2,884</b>	(45)	2,839
Profit on sale of fixed asset investments and group undertakings		<b>4</b>	32	36
Profit on sale of property fixed assets		<b>14</b>	-	14
Net interest payable	7	<u>(886)</u>	<u>(55)</u>	<u>(941)</u>
<b>Profit (loss) before taxation</b>		<b>2,016</b>	(68)	1,948
<b>Taxation</b>		<u>(568)</u>	<u>29</u>	<u>(539)</u>
<b>Profit (loss) after taxation</b>		<b>1,448</b>	(39)	1,409
Minority interests		<u>8</u>	-	<u>8</u>
<b>Profit (loss) attributable to shareholders</b>		<b><u>1,456</u></b>	<u>(39)</u>	1,417
Dividends				<u>(732)</u>
<b>Retained profit for the period</b>				<u><u>685</u></u>
<b>Earnings per share</b>	9			
- basic		<u>16.9p</u>		<u>16.4p</u>
- diluted		<u>16.8p</u>		<u>16.3p</u>

**GROUP PROFIT AND LOSS ACCOUNT**  
**for the year ended March 31, 2003**

	Notes	Before goodwill amortisation and exceptional items £m	Goodwill amortisation and exceptional items (note 6) £m	Total £m
<b>Group turnover</b>	2, 4	<b>18,727</b>	-	18,727
Other operating income		<b>215</b>	-	215
Operating costs	3	<b>(16,152)</b>	<u>(218)</u>	<u>(16,370)</u>
Group operating profit (loss)	2	<b>2,790</b>	(218)	2,572
Group's share of operating profits of associates and joint ventures	4	<u>181</u>	<u>148</u>	<u>329</u>
Total operating profit (loss)		<b>2,971</b>	<u>(70)</u>	<u>2,901</u>
Profit on sale of fixed asset investments and group undertakings	5	-	1,691	1,691
Profit on sale of property fixed assets		<b>11</b>	-	11
Amounts written off investments		<b>(7)</b>	-	(7)
Net interest payable	7	<b>(1,146)</b>	<u>(293)</u>	<u>(1,439)</u>
<b>Profit before taxation</b>		<b>1,829</b>	1,328	3,157
<b>Taxation</b>		<u><b>(598)</b></u>	<u>139</u>	<u>(459)</u>
<b>Profit after taxation</b>		<b>1,231</b>	1,467	2,698
Minority interests		<u><b>(5)</b></u>	<u>(7)</u>	<u>(12)</u>
<b>Profit attributable to shareholders</b>		<u><b>1,226</b></u>	<u>1,460</u>	2,686
Dividends				<u>(560)</u>
<b>Retained profit for the period</b>				<u><u>2,126</u></u>
<b>Earnings per share</b>	9			
- basic		<u>14.2p</u>		<u>31.2p</u>
- diluted		<u>14.1p</u>		<u>31.0p</u>

**GROUP CASH FLOW STATEMENT**  
**for the three months and year ended March 31, 2004**

	Fourth quarter ended March 31		Year ended March 31	
	2004	2003	2004	2003
	(unaudited)			
	£m	£m	£m	£m
<b>Net cash inflow from operating activities*</b> (note 10)	1,568	2,247	5,389	6,023
<b>Dividends from associates and joint ventures</b>	-	2	3	6
<b>Net cash inflow (outflow) for returns on investments and servicing of finance**</b>	148	(528)	(527)	(1,506)
<b>Taxation paid</b>	(132)	(158)	(317)	(434)
Purchase of tangible fixed assets	(802)	(676)	(2,684)	(2,580)
Net sale of fixed asset investments	4	17	131	105
Sale of tangible fixed assets	33	27	76	94
<b>Net cash outflow for capital expenditure and financial investments</b>	(765)	(632)	(2,477)	(2,381)
<b>Free cash inflow before acquisitions, disposals and dividends</b>	819	931	2,071	1,708
Acquisitions	(33)	(63)	(61)	(77)
Disposals	-	2,706	1	2,919
<b>Net cash (outflow) inflow for acquisitions and disposals</b>	(33)	2,643	(60)	2,842
<b>Equity dividends paid</b>	(277)	(194)	(645)	(367)
<b>Cash inflow before use of liquid resources and financing</b>	509	3,380	1,366	4,183
<b>Management of liquid resources</b>	857	(2,379)	1,123	(1,729)
Issue of ordinary share capital	-	-	-	42
Repurchase of ordinary share capital	(86)	-	(144)	-
New loans	6	-	1,326	20
Repayment of loans	(1,475)	(958)	(3,627)	(2,471)
Net movement on short-term borrowings	-	-	-	(64)
<b>Net cash outflow from financing (Decrease) increase in cash</b>	(1,555)	(958)	(2,445)	(2,473)
	<u>(189)</u>	<u>43</u>	<u>44</u>	<u>(19)</u>
<b>Decrease in net debt from cash flows</b> (note 11)	<u>423</u>	<u>3,380</u>	<u>1,222</u>	<u>4,225</u>
*Net of deficiency and special pension contributions	<u>(380)</u>	<u>-</u>	<u>(742)</u>	<u>(329)</u>
**Net of interest receipts on restructuring currency swap portfolio	<u>303</u>	<u>-</u>	<u>420</u>	<u>-</u>

**GROUP BALANCE SHEET**  
**at March 31, 2004**

	March 31 2004 £m	<i>March 31</i> <i>2003</i> <i>£m</i>
<b>Fixed assets</b>		
Intangible assets	204	218
Tangible assets	15,487	15,888
Investments	<u>377</u>	<u>555</u>
	16,068	16,661
<b>Current assets</b>		
Stocks	89	82
Debtors	5,189	5,043
Investments	5,163	6,340
Cash at bank and in hand	<u>109</u>	<u>91</u>
	<u>10,550</u>	<u>11,556</u>
<b>Creditors: amounts falling due within one year</b>		
Loans and other borrowings	1,271	2,548
Other creditors	<u>7,277</u>	<u>7,132</u>
	<u>8,548</u>	<u>9,680</u>
<b>Net current assets</b>	<u>2,002</u>	<u>1,876</u>
<b>Total assets less current liabilities</b>	<u>18,070</u>	<u>18,537</u>
<b>Creditors: amounts falling due after more than one year</b>		
Loans and other borrowings	12,426	13,456
<b>Provisions for liabilities and charges (note 12)</b>	2,504	2,376
<b>Minority interests</b>	46	63
<b>Capital and reserves (note 13)</b>		
Called up share capital	432	434
Reserves	<u>2,662</u>	<u>2,208</u>
<b>Total equity shareholders' funds</b>	<u>3,094</u>	<u>2,642</u>
	<u>18,070</u>	<u>18,537</u>

## NOTES

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### **1 Basis of preparation**

The preliminary results of BT Group, which are not statutory accounts, have been prepared on the basis of the accounting policies as set out in the Report and Accounts of BT Group plc for the year ended March 31, 2003. Figures for the years ended March 31, 2004 and 2003 are extracts from the group accounts for those years.

The group accounts for the year ended March 31, 2004, on which the auditors issued an unqualified report which did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985, were approved by the Board of Directors on May 19, 2004 and have not yet been delivered to the Registrar of Companies but are expected to be published on June 2, 2004.

### **2 Results of businesses**

The tables below show the results of BT's lines of business. There is extensive trading between many of the business units and profitability is dependent on the transfer price levels. These intra-group trading arrangements are subject to review and have changed in certain instances. Comparative figures have been restated for these changes but there is no impact at a group level. The eliminations are intra-group eliminations.

With effect from January 1, 2003 the operations of BT Openworld were transferred under the management control of BT Retail. The comparative figures have been restated to report BT Openworld as part of BT Retail for all the periods under review.



## 2 Results of businesses *continued*

### (a) Operating results

	External turnover £m	Internal turnover £m	Group turnover £m	Group operating profit (loss) (iii) £m	EBITDA (iii) £m
<i>Fourth quarter ended</i>					
<i>March 31, 2004</i>					
BT Retail	3,243	277	3,520	310	346
BT Wholesale	864	1,844	2,708	397	888
BT Global Services	665	984	1,649	7	163
Other	15	-	15	(43)	15
Intra-group items (ii)	-	(3,105)	(3,105)	-	-
<b>Total</b>	<u>4,787</u>	<u>-</u>	<u>4,787</u>	<u>671</u>	<u>1,412</u>
<i>Fourth quarter ended</i>					
<i>March 31, 2003 (i)</i>					
BT Retail	3,314	240	3,554	369	417
BT Wholesale	900	1,915	2,815	471	956
BT Global Services	560	966	1,526	(79)	89
Other	4	-	4	(28)	49
Intra-group items (ii)	-	(3,121)	(3,121)	-	-
<b>Total</b>	<u>4,778</u>	<u>-</u>	<u>4,778</u>	<u>733</u>	<u>1,511</u>
<i>Year ended March 31, 2004</i>					
BT Retail	12,630	904	13,534	1,434	1,596
BT Wholesale	3,445	7,414	10,859	1,681	3,600
BT Global Services	2,410	3,372	5,782	(105)	508
Other	34	1	35	(118)	112
Intra-group items (ii)	-	(11,691)	(11,691)	-	-
<b>Total</b>	<u>18,519</u>	<u>-</u>	<u>18,519</u>	<u>2,892</u>	<u>5,816</u>
<i>Year ended March 31, 2003 (i)</i>					
BT Retail	12,979	903	13,882	1,528	1,729
BT Wholesale	3,525	7,722	11,247	1,758	3,681
BT Global Services	2,183	3,234	5,417	(375)	238
Other	40	1	41	(121)	157
Intra-group items (ii)	-	(11,860)	(11,860)	-	-
<b>Total</b>	<u>18,727</u>	<u>-</u>	<u>18,727</u>	<u>2,790</u>	<u>5,805</u>

- (i) The results of the lines of business for the quarter and year ended March 31, 2003 have been restated to reflect changes to intra-group trading arrangements.
- (ii) Elimination of intra-group turnover between businesses, which is included in the total turnover of the originating business.
- (iii) Before goodwill amortisation and exceptional items.

## 2 Results of businesses *continued*

### BT Global Services analysis

	Fourth quarter ended March 31			Year ended March 31		
	2004 £m	2003 £m	Better (worse) %	2004 £m	2003 £m	Better (worse) %
<b>Group turnover</b>						
Solutions	822	731	12	2,802	2,455	14
Syntegra	253	192	32	721	623	16
Global Products	487	444	10	1,831	1,674	9
Global Carrier	252	268	(6)	962	974	(1)
Other and eliminations	<u>(165)</u>	<u>(109)</u>	(51)	<u>(534)</u>	<u>(309)</u>	(73)
	<u>1,649</u>	<u>1,526</u>	8	<u>5,782</u>	<u>5,417</u>	7
<b>EBITDA</b>						
Solutions	119	73	63	337	286	18
Syntegra	17	15	13	37	34	9
Global Products	36	16	125	113	(44)	n/m
Global Carrier	51	49	4	163	148	10
Other (i)	<u>(60)</u>	<u>(64)</u>	6	<u>(142)</u>	<u>(186)</u>	24
	<u>163</u>	<u>89</u>	83	<u>508</u>	<u>238</u>	113
<b>Operating profit (loss) (ii)</b>						
Solutions	100	50	100	261	209	25
Syntegra	14	12	17	28	24	17
Global Products	(61)	(85)	28	(273)	(432)	37
Global Carrier	29	24	21	74	57	30
Other (i)	<u>(75)</u>	<u>(80)</u>	6	<u>(195)</u>	<u>(233)</u>	16
	<u>7</u>	<u>(79)</u>	n/m	<u>(105)</u>	<u>(375)</u>	72
Capital expenditure	<u>160</u>	<u>152</u>	(5)	<u>479</u>	<u>445</u>	(8)

(i) Other is after charging leaver costs of £14m in the fourth quarter (£19m last year) and £33m in the year ended March 31, 2004 (£65m last year).

(ii) Before goodwill amortisation.

## 2 Results of businesses *continued*

### (b) Group turnover analysis

	Fourth quarter ended March 31			Year ended March 31		
	2004 £m	2003 £m	Better (worse) %	2004 £m	2003 £m	Better (worse) %
Traditional	3,709	3,997	(7)	15,132	16,115	(6)
New wave	<u>1,078</u>	<u>781</u>	38	<u>3,387</u>	<u>2,612</u>	30
	<u>4,787</u>	<u>4,778</u>	-	<u>18,519</u>	<u>18,727</u>	(1)
Consumer	1,474	1,509	(2)	5,974	6,067	(2)
Business	660	666	(1)	2,600	2,716	(4)
Major Corporate	1,652	1,534	8	5,909	5,794	2
Wholesale/Carrier	986	1,065	(7)	4,002	4,110	(3)
Other	<u>15</u>	<u>4</u>	n/m	<u>34</u>	<u>40</u>	(15)
	<u>4,787</u>	<u>4,778</u>	-	<u>18,519</u>	<u>18,727</u>	(1)

*Note:* New wave includes the external new wave turnover of BT Retail (ICT, broadband, mobility and classified directories) and BT Wholesale (broadband and managed services) and the external turnover of Global Solutions and BT Syntegra.

Consumer includes the external turnover of BT Retail from consumer customers.

Business includes the external turnover of BT Retail from SME customers.

Major Corporate includes the external turnover of BT Retail from major corporate customers and the external turnover of BT Global Services, with the exception of Global Carrier.

Wholesale/Carrier includes the external turnover of BT Wholesale and Global Carrier.

### (c) Capital expenditure on plant, equipment and motor vehicle additions

	Fourth quarter ended March 31		Year ended March 31	
	2004 £m	2003 £m	2004 £m	2003 £m
BT Retail	46	40	118	109
BT Wholesale				
Access	249	252	966	888
Switch	17	30	87	164
Transmission	64	81	213	260
Products/systems support	<u>214</u>	<u>115</u>	<u>543</u>	<u>340</u>
	544	478	1,809	1,652
BT Global Services				
Syntegra and Solutions	41	30	121	66
UK Networks	39	56	131	140
Other	<u>80</u>	<u>66</u>	<u>227</u>	<u>239</u>
	160	152	479	445
Other (including fleet vehicles and property)	<u>94</u>	<u>54</u>	<u>267</u>	<u>239</u>
<b>Total</b>	<u>844</u>	<u>724</u>	<u>2,673</u>	<u>2,445</u>

## 2 Results of businesses *continued*

### (d) Net operating assets (liabilities)

	March 31 2004 £m	March 31 2003 £m
BT Retail	(40)	(430)
BT Wholesale	11,940	12,041
BT Global Services	1,291	1,912
Other	<u>188</u>	<u>217</u>
<b>Total</b>	<b><u>13,379</u></b>	<b><u>13,740</u></b>

*Note:* Net operating assets (liabilities) comprise tangible and intangible fixed assets, stocks, debtors less creditors (excluding loans and other borrowings) and provisions for liabilities and charges (excluding deferred tax).

## 3 Operating costs

	Fourth quarter ended March 31		Year ended March 31	
	2004 £m	2003 £m	2004 £m	2003 £m
Net staff costs before leaver costs	875	835	3,533	3,395
Leaver costs	<u>149</u>	<u>71</u>	<u>202</u>	<u>276</u>
Net staff costs	1,024	906	3,735	3,671
Depreciation	740	777	2,921	3,011
Payments to telecommunication operators	973	915	3,963	3,940
Other operating costs	<u>1,423</u>	<u>1,514</u>	<u>5,185</u>	<u>5,530</u>
<b>Total before goodwill amortisation and exceptional items</b>	4,160	4,112	15,804	16,152
Goodwill amortisation	3	4	12	20
Exceptional items	<u>7</u>	<u>-</u>	<u>7</u>	<u>198</u>
<b>Total</b>	<b><u>4,170</u></b>	<b><u>4,116</u></b>	<b><u>15,823</u></b>	<b><u>16,370</u></b>

## 4 Group's share of associates and joint ventures

	Fourth quarter ended March 31		Year ended March 31	
	2004 £m	2003 £m	2004 £m	2003 £m
Share of associates and joint ventures turnover	<u>91</u>	<u>188</u>	<u>395</u>	<u>1,455</u>
Share of operating (losses) profits before goodwill amortisation and exceptional items	(6)	19	(8)	181
Impairment of associates and joint ventures and release of related costs	(26)	-	(26)	150
Amortisation of goodwill	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>(2)</u>
Total share of operating (losses) profits of associates and joint ventures	<b><u>(32)</u></b>	<b><u>17</u></b>	<b><u>(34)</u></b>	<b><u>329</u></b>

## 5 Profit on sale of fixed asset investments and group undertakings

The profit in the three months ended March 31, 2003 of £1,526m was mainly attributable to the profit on sale of our stake in Cegetel of £1,509m. After recognition of an exceptional interest charge of £293m on closing out £2.6bn of fixed interest rate swaps, following receipt of the Cegetel sale proceeds of £2.6bn, the net profit on sale was £1,216m.

## 6 Exceptional items and goodwill amortisation

	Fourth quarter ended March 31		Year ended March 31	
	2004 £m	2003 £m	2004 £m	2003 £m
Profit on sale of fixed asset investments and group undertakings	-	1,233	32	1,398
Property rationalisation costs	-	-	-	(198)
Impairment of investments and release for related costs	(26)	-	(26)	150
Exceptional operating costs	(7)	-	(7)	-
Net interest payable	-	-	(55)	-
Goodwill amortisation	<u>(3)</u>	<u>(6)</u>	<u>(12)</u>	<u>(22)</u>
Net (charge) credit before tax and minority interests	<u>(36)</u>	<u>1,227</u>	<u>(68)</u>	<u>1,328</u>

## 7 Net interest payable

	Fourth quarter ended March 31		Year ended March 31	
	2004 £m	2003 £m	2004 £m	2003 £m
Group	265	609	1,220	1,609
Joint ventures and associates	<u>5</u>	<u>4</u>	<u>19</u>	<u>25</u>
Total interest payable	270	613	1,239	1,634
Interest receivable	<u>(48)</u>	<u>(54)</u>	<u>(298)</u>	<u>(195)</u>
Net interest payable	<u>222</u>	<u>559</u>	<u>941</u>	<u>1,439</u>
Analysed:				
Before exceptional items	222	266	886	1,146
Exceptional items	<u>-</u>	<u>293</u>	<u>55</u>	<u>293</u>
Total	<u>222</u>	<u>559</u>	<u>941</u>	<u>1,439</u>

## 8 Dividends

	Year ended March 31		Year ended March 31	
	2004 pence per share	2003	2004 £m	2003 £m
Interim dividend	3.20	2.25	278	194
Proposed final dividend	<u>5.30</u>	<u>4.25</u>	<u>454</u>	<u>366</u>
	<u>8.50</u>	<u>6.50</u>	<u>732</u>	<u>560</u>

## 9 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	
	2004	2003	2004	2003
	million of shares		million of shares	
Basic	8,597	8,623	8,621	8,616
Diluted	8,645	8,671	8,676	8,668

## 10 Reconciliation of operating profit to operating cash flow

	Fourth quarter ended March 31		Year ended March 31	
	2004	2003	2004	2003
	£m	£m	£m	£m
Group operating profit	661	729	2,873	2,572
Depreciation and amortisation	744	782	2,936	3,035
Changes in working capital	527	814	237	501
Provision movements, pensions and other	<u>(364)</u>	<u>(78)</u>	<u>(657)</u>	<u>(85)</u>
Net cash inflow from operating activities	<u>1,568</u>	<u>2,247</u>	<u>5,389</u>	<u>6,023</u>

## 11 Net debt

### (a) Analysis

	At March 31	
	2004	2003
	£m	£m
Long-term loans and other borrowings falling due after more than one year	12,426	13,456
Short-term borrowings and long-term loans and other borrowings falling due within one year	<u>1,271</u>	<u>2,548</u>
Total debt	13,697	16,004
Short-term investments	(5,163)	(6,340)
Cash at bank	<u>(109)</u>	<u>(91)</u>
Net debt at end of period	<u>8,425</u>	<u>9,573</u>

**11 Net debt continued****(b) Reconciliation of net cash flow to movement in net debt**

	Fourth quarter ended March 31		Year ended March 31	
	2004	2003	2004	2003
	£m	£m	£m	£m
Net debt at beginning of period	8,795	12,917	9,573	13,701
Decrease in net debt resulting from cash flows	(423)	(3,380)	(1,222)	(4,225)
Net debt assumed or issued on acquisitions	1	-	1	(13)
Currency and other movements	15	35	4	67
Other non-cash movements	<u>37</u>	<u>1</u>	<u>69</u>	<u>43</u>
Net debt at end of period	<u>8,425</u>	<u>9,573</u>	<u>8,425</u>	<u>9,573</u>

**12 Provisions for liabilities and charges**

	At March 31	
	2004	2003
	£m	£m
Deferred taxation	2,191	2,017
Pension provisions (a)	36	33
Other provisions	<u>277</u>	<u>326</u>
	<u>2,504</u>	<u>2,376</u>

- (a) The pension prepayment relating to the BT Pension Scheme of £1,172m at March 31, 2004 (£630m last year) is included in debtors and falls due after more than one year.

**13 Share capital and reserves**

	Share capital	Reserves	Total
	£m	£m	£m
Balances at April 1, 2003	434	2,208	2,642
Repurchase of share capital	(2)	(142)	(144)
Profit for the financial year	-	1,417	1,417
Dividend	-	(732)	(732)
Currency movements	-	(89)	(89)
Balances at March 31, 2004	<u>432</u>	<u>2,662</u>	<u>3,094</u>

**14 Earnings before interest, taxation, depreciation and amortisation (EBITDA)**

	Fourth quarter ended March 31		Year ended March 31	
	2004	2003	2004	2003
	£m	£m	£m	£m
Group operating profit	661	729	2,873	2,572
Exceptional items	7	-	7	198
Depreciation	741	778	2,924	3,015
Goodwill amortisation	<u>3</u>	<u>4</u>	<u>12</u>	<u>20</u>
EBITDA before exceptional items	<u>1,412</u>	<u>1,511</u>	<u>5,816</u>	<u>5,805</u>

## 15 Pensions

The group continues to account for pensions in accordance with SSAP24. Full implementation of FRS17 has been deferred by the Accounting Standards Board and would apply to BT for the 2005/06 financial year. However, in the 2005/06 financial year the group will adopt International Financial Reporting Standards (IFRS). The requirements for disclosure under FRS17 remain in force between its issue and full implementation of IFRS and extracts of the required information are set out below.

The assumptions used to calculate the BTPS liabilities under FRS17 at March 31, 2004 are:

	Real rates (per annum)		Nominal rates (per annum)	
	2004	2003	2004	2003
	%	%	%	%
Average future increases in wages and salaries	1.00*	1.50*	3.63*	3.78*
Average increase in pensions in payment and deferred pensions	-	-	2.60	2.25
Rate used to discount scheme liabilities	2.83	3.08	5.50	5.40
Inflation – average increase in retail price index	-	-	2.60	2.25

\*There is a short term reduction in the real salary growth assumption to 0.75% for the first three years (2003) and first two years (2004).

The net pension deficit set out below under FRS17 is as if this standard was fully applied. The fair value of the BTPS assets, the present value of the BTPS liabilities based on the financial assumptions set out above, and the resulting deficit, together with those of unfunded pension liabilities at March 31, 2004 are shown below. The fair value of the BTPS assets is not intended to be realised in the short term and may be subject to significant change before it is realised. The present value of the liabilities is derived from long-term cash flow projections and is thus inherently uncertain.

	March 31, 2004			March 31, 2003		
	Assets £m	Present value of liabilities £m	Deficit £m	Assets £m	Present value of liabilities £m	Deficit £m
BTPS	26,900	32,000	5,100	21,500	30,500	9,000
Other liabilities	-	36	<u>36</u>	-	33	<u>33</u>
Total deficit			5,136			9,033
Deferred tax asset at 30 per cent			(1,541)			(2,710)
<b>Net pension liability</b>			<u>3,595</u>			<u>6,323</u>



## 16 United States Generally Accepted Accounting Principles

The results set out above have been prepared in accordance with accounting principles generally accepted in the United Kingdom. The table below sets out the results calculated in accordance with United States Generally Accepted Accounting Principles.

	Fourth quarter ended March 31		Year ended March 31	
	2004	2003	2004	2003
Net income attributable to shareholders (£m) including exceptional items	373	2,987	883	4,134
Earnings per ADS (£)				
- basic	0.43	3.46	1.02	4.80
- diluted	0.43	3.45	1.02	4.77

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

Shareholders' equity, calculated in accordance with United States Generally Accepted Accounting Principles, is £1,455m deficit at March 31, 2004 (March 31, 2003 - £2,258m).

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**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: cash flow, earnings per share and customer satisfaction targets; expectations regarding broadband, ICT and mobility growth, ADSL broadband roll out, and revenues from new wave products and services; the possible or assumed future results of operations of BT and/or its lines of business; investment in the 21<sup>st</sup> century network and the generation of long-term cost savings and customer benefits; and expectations regarding revenue growth, dividend pay-out ratio, debt reduction, rewarding shareholders and investing for the future.

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 and its lines of business; future regulatory actions and conditions in BT's operating areas, including competition from others in the UK and other international communications markets; 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 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; the timing of entry and profitability of BT and its lines of business in certain communication markets; significant changes in market shares for BT and its principal products and services; to the extent that BT chooses to sell assets or minority interests in its subsidiaries, prevailing market levels for such sales; 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.