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BT GROUP PLC
Form 6-K
July 31, 2003

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

31 July, 2003

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 31 July 2003

July 31, 2003

FIRST QUARTER RESULTS TO JUNE 30, 2003

FIRST QUARTER HIGHLIGHTS

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- Earnings per share* of 4.1 pence, up 64 per cent
- . Profit before taxation* of GBP502 million, up 56 per cent
- . Group turnover maintained at GBP4,586 million
- . Free cash generated of GBP618 million (GBP206 million last year)
- . Net debt reduced below GBP9 billion, GBP4.4 billion less than June 30, 2002
- One million broadband connections achieved in June

Chief Executive's statement

Ben Verwaayen, Chief Executive, said:

"Our focus on financial discipline, defending our core business and creating new business streams continues to deliver results. I am pleased to report earnings per share* growth of 64 per cent on flat revenues, free cash flow of GBP618 million and net debt reduced below GBP9 billion.

The group reached another key milestone early, achieving one million broadband connections in June. This was also a further record quarter for the corporate order book and the group continues to deliver efficiency savings throughout the business."

* Before goodwill amortisation and exceptional items. The full profit and loss account is presented on page 12.

RESULTS FOR THE FIRST QUARTER TO JUNE 30, 2003

BT Group's results before goodwill amortisation and exceptional items

| | First quarter | | | Yea M |
|------------------------|---------------|--------------|---------------------|----------|
| | 2003 GBPm | 2002 GBPm | Better (worse) % | |
| Group turnover | 4,586 | 4,587 | - | |
| EBITDA | 1,460 | 1,303 | 12 | |
| Group operating profit | 730 | 570 | 28 | |
| Net interest charge | 225 | 300 | 25 | |
| Profit before taxation | 502 | 322 | 56 | |
| Profit after taxation | 349 | 215 | 62 | |
| Earnings per share | 4.1p | 2.5p | 64 | |

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| | | | |
|---------------------|-------|--------|-----|
| Capital expenditure | 552 | 549 | (1) |
| Net debt | 8,988 | 13,397 | 33 |

Total earnings per share and profit before tax, after goodwill amortisation and exceptional items, for the first quarter are 4.1 pence (2002 - 3.2 pence) and GBP498 million (2002 - GBP384 million) respectively.

The results in the table above and the commentary focus on the results before goodwill amortisation and exceptional items.

The full profit and loss account, cash flow statement and balance sheet are provided below.

GROUP RESULTS

Group turnover was flat year on year at GBP4,586 million in the first quarter. This performance represents an improvement on the 1 per cent underlying decline in turnover in the fourth quarter of last year. The 3 per cent decline in the group's core business was offset by the 23 per cent growth in new wave revenues. The consumer sector has shown continued growth although revenue from SME's declined.

Group operating profit before goodwill amortisation at GBP730 million for the quarter was GBP160 million higher than the first quarter of last year. Leaver costs of GBP11 million were GBP145 million lower than the first quarter of last year and further operational efficiencies have resulted in cost savings across the lines of business. These savings were partly offset by increased pension costs, wage inflation, higher national insurance rates and the continued investment in new wave activities. Group operating profit margin increased to 15.9 per cent (12.4 per cent last year) and excluding leaver costs was 16.2 per cent (15.8 per cent last year).

BT's share of associates and joint ventures operating losses before goodwill amortisation was GBP3 million in the quarter (GBP49 million profit last year) with the reduction due to the disposal of our stake in Cegetel in January 2003.

Net interest payable was GBP225 million for the quarter, an improvement of GBP75 million against last year as a result of the reduction in the level of net debt.

The above factors resulted in the group achieving a profit before taxation, goodwill amortisation and exceptional items of GBP502 million in the quarter, an increase of 56 per cent.

The taxation charge was GBP153 million for the quarter on the profit before goodwill amortisation and exceptional items, an effective rate of 30.5 per cent (33.2 per cent last year). The lower effective tax rate partially reflects reduced overseas losses for which relief is not available.

Earnings per share before goodwill amortisation and exceptional items were 4.1 pence for the first quarter (2.5 pence last year), an increase of 64 per cent. Earnings per share after goodwill amortisation and exceptional items were 4.1 pence compared to 3.2 pence last year, an increase of 28 per cent.

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

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achieved a 6 per cent improvement in the level of customer dissatisfaction over the quarter, including significant improvements among the group's Global Services and Wholesale customers.

Broadband

A major broadband milestone was passed in the first quarter. The initial target of one million wholesale broadband connections was achieved in early June, ahead of the target date. The challenging target had been set in February 2002 when BT had only 143,000 connections.

There was an installed base of 1,058,000 ADSL lines at June 30, 2003 and at the end of the quarter weekly orders were in excess of 25,000, a 127 per cent increase compared to the end of the first quarter last year.

At June 30, 2003 ADSL broadband was available to 71 per cent of the country. In July, trigger levels were set for a further 500 exchanges under the innovative demand registration scheme, which means that if the demand is there, ADSL broadband will be made available to 90 per cent of UK homes and businesses.

Lines of business results

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

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 have changed in certain circumstances so as 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. In addition, reference is made to operating free cash flow, which is defined as EBITDA less capital expenditure.

OPERATING PERFORMANCE BY LINE OF BUSINESS

| First quarter ended June 30, 2003 (i) | Group turnover GBPm | Group operating profit (loss) (iii) GBPm | EBITDA GBPm |
|--|---------------------------|--|----------------|
| BT Retail | 3,332 | 392 | 439 |
| BT Wholesale | 2,769 | 436 | 910 |
| BT Global Services | 1,345 | (51) | 95 |
| Other | 6 | (47) | 16 |
| Intra-group items (ii) | (2,866) | - | - |
| Total | 4,586 | 730 | 1,460 |

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i. See note 2 below 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.

BT Retail

| | First quarter ended June 30 | | | |
|---|-----------------------------|-------|----------------|-----|
| | 2003 | 2002* | Better (worse) | |
| | GBPm | GBPm | GBPm | % |
| Group turnover | 3,332 | 3,345 | (13) | - |
| Gross margin | 924 | 969 | (45) | (5) |
| Sales, general and administration costs | 485 | 553 | 68 | 12 |
| EBITDA | 439 | 416 | 23 | 6 |
| Depreciation | 47 | 51 | 4 | 8 |
| Operating profit | 392 | 365 | 27 | 7 |
| Capital expenditure | 20 | 19 | (1) | (5) |
| Operating free cash flow | 419 | 397 | 22 | 6 |

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

Growth in the new wave revenues of 20 per cent has offset the 3 per cent decline in the core revenues, resulting in flat revenues compared to the first quarter of last year. A significant proportion of the core decline was due to reduced revenues from private circuits.

BT Retail increased operating profit by 7 per cent and operating free cash flow by 6 per cent compared to the first quarter of last year. The operating profit improvement is primarily driven by continued cost reduction programmes, including lower property and IT costs, and lower leaver costs partially offset by the expected decline in the gross margin and investment in new wave products and services.

| | First quarter ended June 30 | | | |
|--------------------|-----------------------------|-------|----------------|---|
| | 2003 | 2002* | Better (worse) | |
| | GBPm | GBPm | GBPm | % |
| BT Retail turnover | | | | |

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| | | | | |
|---|-------|-------|------|-----|
| Voice Services | 2,307 | 2,362 | (55) | (2) |
| Intermediate Products | 586 | 616 | (30) | (5) |
| Core | 2,893 | 2,978 | (85) | (3) |
| New Wave | 439 | 367 | 72 | 20 |
| Total | 3,332 | 3,345 | (13) | - |
| | | | | |
| Sales to other BT businesses incl. above | 198 | 192 | 6 | 3 |

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

Turnover from voice services was 2 per cent lower than the first quarter of last year driven primarily by lower volumes of fixed network calls.

The overall market for fixed to fixed voice calls is estimated to have declined by 3 per cent compared to the first quarter of last year. In the residential fixed voice market BT Retail has maintained market share, as measured by volume of fixed voice minutes, at around 73 per cent. In the business fixed voice market, BT Retail's market share has declined by 0.8 percentage points to 42 per cent compared to the last quarter.

Total geographic (local, national and international) call volumes declined by 7 per cent compared to the first quarter of last year.

In the consumer market, BT Retail continued to innovate with the launch in June of its improved, new and simpler BT Together packages which for the first time in the UK removed the difference between local and national call rates; the three packages allow customers a choice from a maximum call charge of 6 pence for up to 60 minutes, or free UK calls for a fixed monthly fee. For the second quarter running, the historical decline in BT residential international call volumes was stemmed by the extension of the BT Together packages to international calls, launched in the third quarter of last year. Existing customers had signed up for 165,000 international packages by June 30, 2003. Including revenues from new wave products and services, in the consumer sector, the average revenue per customer household has increased.

In the business market, the decline in geographic call volumes was driven by a combination of customers switching out of traditional telephony into services, such as VPN's, which are not measured in minutes and the continued competitive pressure of Carrier Pre-Selection in the SME market. BT Business Plan was launched in January 2003 and has attracted more than 100,000 business locations and 65,000 customers by July 25, 2003. This highly competitive package places a ceiling of 10 pence on national and local business calls, rewards loyalty and provides a single BT customer contact. The package was enhanced in July, offering among other features, outstanding value on international calls, with for example, call prices to the US capped at 10 pence for 60 minutes.

Within the major corporate market the defence of core revenues is based on the migration of traditional voice only services into managed ICT (information, communications and technology) contracts; enhanced account management; and deployment of Billing Analyst, an application which allows large corporates to

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more closely manage their telecommunications spend.

Internet, data and fixed to mobile call volumes declined by 9 per cent, with fixed to mobile growth of 5 per cent offset by a reduction in internet and data related call minutes of 11 per cent mainly due to customers continuing to switch to flat rate internet access products and broadband.

Within voice services, external turnover from directory services reduced by GBP7 million in the first quarter compared to last year with the deregulation of this market and BT's replacement of 192 by 118 500.

Turnover from intermediate products of GBP586 million decreased by 5 per cent compared to the first quarter of last year mainly driven by a decline in private circuits as customers migrate to cheaper partial private circuits. The effect of this on the BT Group revenues is about GBP60 million in the first quarter.

New wave revenue increased by 20 per cent year on year in the quarter with the continued focus on the ICT, broadband and mobility products and solutions. During the first quarter, further momentum was gained in the ICT order book with contract wins with Royal Mail, Visa, Travelex, Securicor and Sheffield City Council.

Both BT Broadband and BT Openworld Broadband continue to perform strongly in the marketplace with a combined customer base of 536,000 at June 30, 2003. This represents 51 per cent of BT Wholesale's total ADSL connections.

The total number of BT Retail lines, which includes voice, digital and broadband, increased by 1 per cent, to 29.6 million, since June 30, 2002, reflecting the growth in digital lines and broadband offsetting the reduction in voice lines.

The gross margin reduced by GBP45 million (1.3 percentage points to 27.7 per cent) compared to the first quarter of last year. Lower call volumes and the migration from retail private circuits to partial private circuits, being only partially offset by lower wholesale prices, account for the reduction.

Cost transformation programmes, including a reduction in expenses such as travel, accommodation and IT, lower service costs resulting from improvements in service quality, and billing initiatives and lower leaver costs have generated GBP68 million (12 per cent) savings in sales, general and administration costs against the first quarter of last year. These programmes delivered savings in the core business which were partially offset by investment in new wave activities.

Operating profit in the first quarter of GBP392 million was 7 per cent higher than the prior year which enabled BT Retail to contribute an operating free cash flow (EBITDA less capital expenditure) of GBP419 million in the quarter; GBP22 million better than the first quarter of last year.

BT Wholesale

| | First quarter ended June 30 | | | |
|-------------------|-----------------------------|---------------|------------------------|---|
| | 2003 GBPm | 2002* GBPm | Better (worse) GBPm | % |
| External turnover | 879 | 854 | 25 | 3 |
| Internal turnover | 1,890 | 1,894 | (4) | - |

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| | | | | |
|--|-------|-------|-----|------|
| Group turnover | 2,769 | 2,748 | 21 | 1 |
| Total operating costs before depreciation | 1,887 | 1,974 | 87 | 4 |
| Other operating income | 28 | 31 | (3) | (10) |
| EBITDA | 910 | 805 | 105 | 13 |
| Depreciation | 474 | 472 | (2) | - |
| Operating profit | 436 | 333 | 103 | 31 |
| Capital expenditure | 368 | 359 | (9) | (3) |
| Operating free cash flow | 542 | 446 | 96 | 22 |

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

BT Wholesale's turnover for the first quarter of GBP2,769 million was 1 per cent higher than last year, with external revenue increasing by 3 per cent. Operating profit of GBP436 million was 31 per cent higher and operating free cash flow of GBP542 million was 22 per cent higher than the first quarter of last year. Before leaver costs of GBP102 million in the first quarter of last year (GBPnil this year), both operating profit and operating free cash flow have been broadly maintained at last year's level.

Within traditional products, the impact of price reductions, due mainly to the Network Charge Control (NCC) pricing formulae and OfTel determinations, have offset the growth in volumes and continued to stem external turnover growth. FRIACO revenues continue to grow but are partly offset by the decrease in the conveyance revenues they replace. Revenues from retail private circuits have continued to decline, due to the migration of customers to lower priced partial private circuits.

New wave external revenues of GBP72 million showed a strong growth of 44 per cent over the first quarter of last year. This reflected gains made in broadband, facilities management and consultancy.

Internal turnover in the first quarter of GBP1,890 million was flat year on year due to network volume growth being offset by price reductions.

Operating costs, excluding depreciation, of GBP1,887 million decreased by 4 per cent. The first quarter of last year included one-off early leaver payments of GBP102 million. Excluding leaver costs, operating costs would be broadly flat despite a 3 per cent increase in network volumes, reflecting the continued drive for operational efficiencies.

Operating profit at GBP436 million increased by 31 per cent and operating profit margin of 16 per cent increased by 4 percentage points - both movements mainly reflecting the leaver payments in the prior year.

BT Wholesale has maintained its focus on managed cash costs (defined as operating costs excluding payments to other network operators and depreciation, plus capital expenditure) through its best in class costs programme. Managed cash cost savings were GBP65 million for the quarter and BT Wholesale remains on

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track to achieve the full year target savings of GBP200 million after allowing for price and volume effects.

BT Global Services

| | First quarter ended June 30 | | | |
|--------------------------|-----------------------------|---------------|------------------------|-----|
| | 2003 GBPm | 2002* GBPm | Better (worse) GBPm | % |
| Group turnover | 1,345 | 1,284 | 61 | 5 |
| EBITDA | 95 | 28 | 67 | 239 |
| Group operating loss | (51) | (112) | 61 | 54 |
| Capital expenditure | 102 | 96 | (6) | (6) |
| Operating free cash flow | (7) | (68) | 61 | 90 |

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

BT Global Services has produced a very positive start to the year in achieving significant improvements in profitability and cash flow despite continuing difficult market conditions. Operating losses for the quarter were more than halved to GBP51 million.

Turnover for the quarter rose by 5 per cent to GBP1,345 million despite a 6 per cent fall in Global Carrier. This reduction is in line with the previous quarter and is partly caused by the decline in trade with AT&T and MCI following the unwind of the Concert global venture. Solutions grew by 16 per cent partially reflecting growth in orders over the past three quarters and Global Products grew by 10 per cent on the back of strong growth in MPLS revenues. Syntegra achieved growth of 1 per cent in what remains a difficult market.

Solutions continued its strong momentum in the corporate sector from last year by signing record sales orders to the value of GBP1.9 billion in the first quarter. Despite a strong revenue performance, the operating profits in Solutions reflect contract costs that are recognised up-front in accordance with the group's accounting policies.

A combination of higher gross margin and lower network, selling, general and administration costs following cost reduction initiatives throughout the previous year helped BT Global Services generate an EBITDA improvement of GBP50 million before leaver costs over the first quarter of last year. Leaver costs were GBP8 million for the first quarter (GBP25 million last year).

Capital expenditure totalled GBP102 million and was GBP6 million higher than the first quarter of last year. Operating free cash outflow (EBITDA less capital expenditure) was consequently 90 per cent (GBP61 million) better than the first quarter of last year and before leaver costs there was a cash inflow of GBP1 million.

CASH FLOW AND NET DEBT

Cash inflow from operating activities amounted to GBP1,509 million in the first quarter, a year on year increase of GBP197 million. This improvement reflects

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the higher operating profits and better working capital management.

Free cash flow (before acquisitions and disposals, dividends and financing) was GBP618 million in the quarter, representing a year on year improvement of GBP412 million. As well as improvements in cash flow from operations, free cash flow benefited from the lower cash outflow from fixed asset purchases, interest and tax.

Net debt at June 30, 2003 was GBP8,988 million, a reduction of GBP585 million in the first quarter and GBP4,409 million lower when compared to the position at June 30, 2002.

The group's gross borrowings at June 30, 2003 totalled GBP15,993 million (GBP16,004 million at March 31, 2003). After deducting short term investments and cash of GBP7,005 million (GBP6,431 million at March 31, 2003), net debt was GBP8,988 million at June 30, 2003.

The second quarter and half year's results are expected to be announced on November 13, 2003.

GROUP PROFIT AND LOSS ACCOUNT

for the three months ended June 30, 2003

| (unaudited) | Notes | Before goodwill amortisation and exceptional items GBPm | Goodwill amortisation and exceptional items (note 6) GBPm |
|---|-------|--|--|
| Group turnover | 2, 4 | 4,586 | - |
| Other operating income | | 52 | - |
| Operating costs | 3 | (3,908) | (3) |
| Group operating profit (loss) | 2 | 730 | (3) |
| Group's share of operating losses of associates and joint ventures | 4 | (3) | - |
| Total operating profit (loss) | | 727 | (3) |
| Loss on sale of fixed asset investments and group undertakings | | - | (1) |
| Net interest payable | 5 | (225) | - |
| Profit (loss) before taxation | | 502 | (4) |
| Taxation | | (153) | - |
| Profit (loss) after taxation | | 349 | (4) |

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| | | | |
|--|---|------|-----|
| Minority interests | | 6 | - |
| Profit (loss) attributable to shareholders | | 355 | (4) |
| Earnings per share | 7 | | |
| - basic | | 4.1p | |
| - diluted | | 4.1p | |

GROUP PROFIT AND LOSS ACCOUNT

for the three months ended June 30, 2002

| (unaudited) | Notes | Before goodwill amortisation and exceptional items GBPm | Goodwill amortisation and exceptional items (note 6) GBPm |
|--|-------|--|---|
| Group turnover | 2, 4 | 4,587 | - |
| Other operating income | | 52 | - |
| Operating costs | 3 | (4,069) | (8) |
| Group operating profit (loss) | 2 | 570 | (8) |
| Group's share of operating profits of associates and joint ventures | 4 | 49 | - |
| Total operating profit (loss) | | 619 | (8) |
| Profit on sale of fixed asset investments and group undertakings | | - | 70 |
| Profit on sale of property fixed assets | | 3 | - |
| Net interest payable | 5 | (300) | - |
| Profit before taxation | | 322 | 62 |
| Taxation | | (107) | - |
| Profit after taxation | | 215 | 62 |
| Minority interests | | (2) | - |
| Profit attributable to shareholders | | 213 | 62 |
| Earnings per share | 7 | | |
| - basic | | 2.5p | |

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- diluted

2.5p

GROUP PROFIT AND LOSS ACCOUNT

for the year ended March 31, 2003

| | Notes | Before goodwill amortisation and exceptional items GBPm | Goodwill amortisation and exceptional items (note 6) GBPm |
|--|-------|--|---|
| Group turnover | 2, 4 | 18,727 | - |
| Other operating income | | 215 | - |
| Operating costs | 3 | (16,152) | (218) |
| Group operating profit (loss) | 2 | 2,790 | (218) |
| Group's share of operating profits of associates and joint ventures | 4 | 181 | 148 |
| Total operating profit (loss) | | 2,971 | (70) |
| Profit on sale of fixed asset investments and group undertakings | | - | 1,691 |
| Profit on sale of property fixed assets | | 11 | - |
| Amounts written off investments | | (7) | - |
| Net interest payable | 5 | (1,146) | (293) |
| Profit before taxation | | 1,829 | 1,328 |
| Taxation | | (598) | 139 |
| Profit after taxation | | 1,231 | 1,467 |
| Minority interests | | (5) | (7) |
| Profit attributable to shareholders | | 1,226 | 1,460 |
| Dividends | | | |
| Retained profit for the period | | | |
| Earnings per share | 7 | | |
| - basic | | | |

14.2p

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- diluted

14.1p

GROUP CASH FLOW STATEMENT

for the three months ended June 30, 2003

| | First quarter ended June 30 (unaudited) | |
|---|--|--------------|
| | 2003 GBPm | 2002 GBPm |
| Net cash inflow from operating activities* (note 8) | 1,509 | 1,312 |
| Dividends from associates and joint ventures | - | - |
| Net cash outflow for returns on investments and servicing of finance | (290) | (371) |
| Taxation paid | (8) | (88) |
| Purchase of tangible fixed assets | (607) | (667) |
| Net sale of fixed asset investments | - | - |
| Sale of tangible fixed assets | 14 | 20 |
| Net cash outflow for capital expenditure and financial investments | (593) | (647) |
| Free cash flow before acquisitions, disposals and dividends | 618 | 206 |
| Acquisitions | - | (22) |
| Disposals | - | 128 |
| Net cash inflow for acquisitions and disposals | - | 106 |
| Equity dividends paid | - | - |

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| | | |
|--|-------|---------|
| Cash inflow before use of liquid resources and financing | 618 | 312 |
| Management of liquid resources | (391) | 783 |
| Issue of ordinary share capital | - | 42 |
| New loans | - | 3 |
| Repayment of loans | (12) | (1,086) |
| Net movement on short-term borrowings | - | (64) |
| Net cash outflow from financing | (12) | (1,105) |
| Increase (decrease) in cash | 215 | (10) |
| Decrease in net debt from cash flows (note 9) | 618 | 354 |
| *Net of deficiency and special pension contributions | - | - |

GROUP BALANCE SHEET

at June 30, 2003

| | June 30 2003 GBPm | (unaudited) | June 30 2002 GBPm |
|--------------------------|-------------------------|-------------|-------------------------|
| Fixed assets | | | |
| Intangible assets | 205 | | 235 |
| Tangible assets | 15,676 | | 16,293 |
| Investments | 551 | | 886 |
| | 16,432 | | 17,414 |
| Current assets | | | |
| Stocks | 92 | | 112 |
| Debtors | 4,784 | | 5,311 |
| Investments | 6,928 | | 3,803 |
| Cash at bank and in hand | 77 | | 132 |
| | 11,881 | | 9,358 |

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| | | |
|--|--------|--------|
| Creditors: amounts falling due within one year | | |
| Loans and other borrowings | 2,684 | 1,075 |
| Other creditors | 6,898 | 7,136 |
| | 9,582 | 8,211 |
| Net current assets | 2,299 | 1,147 |
| Total assets less current liabilities | 18,731 | 18,561 |
| Creditors: amounts falling due after more than one year | | |
| Loans and other borrowings | 13,309 | 16,257 |
| Provisions for liabilities and charges (note 10) | 2,350 | 2,328 |
| Minority interests | 57 | 69 |
| Capital and reserves (note 11) | | |
| Called up share capital | 434 | 434 |
| Reserves | 2,581 | (527) |
| Total equity shareholders' funds (deficiency) | 3,015 | (93) |
| | 18,731 | 18,561 |

NOTES

1 Basis of preparation

The unaudited interim 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 year ended March 31, 2003 are extracts from the group accounts for that year.

The group accounts for the year ended March 31, 2003, 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 21, 2003, were published on June 4, 2003 and have been delivered to the Registrar of Companies.

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

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restated for these changes. 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 GBPm | Internal turnover GBPm | Group turnover GBPm | Group op profit |
|--|------------------------------|------------------------------|---------------------------|--------------------|
| First quarter ended June 30, 2003 | | | | |
| BT Retail | 3,134 | 198 | 3,332 | |
| BT Wholesale | 879 | 1,890 | 2,769 | |
| BT Global Services | 567 | 778 | 1,345 | |
| Other | 6 | - | 6 | |
| Intra-group items (ii) | - | (2,866) | (2,866) | |
| Total before exceptional items | 4,586 | - | 4,586 | |
| First quarter ended June 30, 2002 (i) | | | | |
| BT Retail | 3,153 | 192 | 3,345 | |
| BT Wholesale | 854 | 1,894 | 2,748 | |
| BT Global Services | 567 | 717 | 1,284 | |
| Other | 13 | - | 13 | |
| Intra-group items (ii) | - | (2,803) | (2,803) | |
| Total before exceptional items | 4,587 | - | 4,587 | |
| Year ended March 31, 2003 (i) | | | | |
| BT Retail | 12,979 | 903 | 13,882 | |
| BT Wholesale | 3,525 | 7,722 | 11,247 | |
| BT Global Services | 2,183 | 3,234 | 5,417 | |
| Other | 40 | 1 | 41 | |

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| | | | |
|------------------------------------|------------|----------|------------|
| Intra-group items (ii) | - | (11,860) | (11,860) |
| Total before exceptional items | 18,727 | - | 18,727 |

- i. The results of the lines of business for the quarter ended June 30, 2002 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

| | First quarter ended June 30 | | | |
|---|-----------------------------|--------------|------|-----|
| | 2003 GBPm | 2002 GBPm | GBPm | |
| Before goodwill amortisation and exceptional items | | | | |
| Group turnover | | | | |
| Solutions | 634 | 545 | 89 | |
| Syntegra | 144 | 142 | 2 | |
| Global Products | 433 | 393 | 40 | |
| Global Carrier | 231 | 246 | (15) | |
| Other and eliminations (i) | (97) | (42) | (55) | |
| | 1,345 | 1,284 | 61 | |
| EBITDA | | | | |
| Solutions | 62 | 62 | - | |
| Syntegra | 4 | 3 | 1 | |
| Global Products | 21 | (30) | 51 | n/m |
| Global Carrier | 40 | 40 | - | |
| Other (i) | (32) | (47) | 15 | |
| | 95 | 28 | 67 | |
| Group operating profit (loss) | | | | |
| Solutions | 43 | 45 | (2) | |

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| | | | |
|--------------------------|------|-------|-----|
| Syntegra | 2 | 1 | 1 |
| Global Products | (74) | (123) | 49 |
| Global Carrier | 17 | 17 | - |
| Other (i) | (39) | (52) | 13 |
| | (51) | (112) | 61 |
| Capital expenditure | 102 | 96 | (6) |
| Operating free cash flow | (7) | (68) | 61 |

i. Other is after charging leaver costs of GBP8m in the first quarter (GBP25m last year). The distributor margin payable to BT Retail on Solutions contract revenues is reported within Other and accordingly Solutions turnover and profit is reported gross.

2 Results of businesses continued

b. Capital expenditure on plant, equipment and motor vehicle additions

| | First quarter ended June 30 | |
|--------------------|-----------------------------|------|
| | 2003 | 2002 |
| | GBPm | GBPm |
| BT Retail | 20 | 19 |
| BT Wholesale | 368 | 359 |
| BT Global Services | 102 | 96 |
| Other | 62 | 75 |
| Total | 552 | 549 |

c. Net operating assets (liabilities)

| | June 30 |
|-----------|---------|
| | 2003 |
| | GBPm |
| BT Retail | (291) |

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| | |
|--------------------|---------------|
| BT Wholesale | 12,014 |
| BT Global Services | 1,691 |
| Other | 112 |
| Total | 13,526 |

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 Other operating costs

| | First quarter ended June 30 | |
|---|-----------------------------|--------------|
| | 2003 | 2002 |
| | GBPm | GBPm |
| Net staff costs | 913 | 1,031 |
| Depreciation | 729 | 732 |
| Payments to telecommunication operators | 1,017 | 982 |
| Other operating costs | 1,249 | 1,324 |
| Total before goodwill amortisation and exceptional items* | 3,908 | 4,069 |
| Goodwill amortisation | 3 | 8 |
| Exceptional items | - | - |
| Total | 3,911 | 4,077 |
| *Includes leaver costs of | 11 | 156 |

4 Group's share of turnover and (losses) profits of associates and joint ventures

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| | First quarter ended June 30 | |
|--|-----------------------------|------|
| | 2003 | 2002 |
| | GBPm | GBPm |
| Share of associates and joint ventures turnover | 107 | 411 |
| Share of operating (losses) profits before goodwill amortisation and exceptional items | (3) | 49 |
| Release of provision for exit related costs | - | - |
| Amortisation of goodwill | - | - |
| Share of operating (losses) profits of associates and joint ventures | (3) | 49 |
| | | |
| 5 Net interest payable | | |

| | First quarter ended June 30 | |
|-------------------------------|-----------------------------|------|
| | 2003 | 2002 |
| | GBPm | GBPm |
| Group | 288 | 335 |
| Joint ventures and associates | 5 | 10 |
| Total interest payable | 293 | 345 |
| Interest receivable | (68) | (45) |
| Net interest payable | 225 | 300 |
| Analysed: | | |
| Before exceptional items | 225 | 300 |
| Exceptional items | - | - |
| | 225 | 300 |

6 Exceptional items and goodwill amortisation

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| | First quarter ended June 30 | |
|--|-----------------------------|------|
| | 2003 | 2002 |
| | GBPm | GBPm |
| Property rationalisation costs | - | - |
| Release of provision for exit related costs | - | - |
| (Loss) profit on sale of group undertakings and fixed asset investments | (1) | 70 |
| Goodwill amortisation | (3) | (8) |
| Net (charge) credit before tax and minority interests | (4) | 62 |

7 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. 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 was:

| | First quarter ended June 30 | |
|---------|-----------------------------|-------|
| | 2003 | 2002 |
| | million of shares | |
| Basic | 8,623 | 8,619 |
| Diluted | 8,673 | 8,672 |

8 Reconciliation of operating profit to operating cash flow

| | First quarter ended June 30 | |
|--|-----------------------------|------|
| | 2003 | 2002 |
| | GBPm | GBPm |

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| | | |
|---|-------|-------|
| Group operating profit | 727 | 562 |
| Depreciation and amortisation | 733 | 741 |
| Changes in working capital | 12 | 5 |
| Provision, pension movements and other | 37 | 4 |
| Net cash inflow from operating activities | 1,509 | 1,312 |

9 Net debt

a. Analysis

| | At June 30 | |
|--|--------------|--------------|
| | 2003 GBPm | 2002 GBPm |
| Long-term loans and other borrowings falling due after more than one year | 13,309 | 16,257 |
| Short-term borrowings and long-term loans and other borrowings falling due within one year | 2,684 | 1,075 |
| Total debt | 15,993 | 17,332 |
| Short-term investments | (6,928) | (3,803) |
| Cash at bank | (77) | (132) |
| Net debt at end of period | 8,988 | 13,397 |

9 Net debt continued

b. Reconciliation of net cash flow to movement in net debt

| | First quarter ended June 30 | |
|--|-----------------------------|--------------|
| | 2003 GBPm | 2002 GBPm |
| Net debt at beginning of period | 9,573 | 13,701 |
| Decrease in net debt resulting from cash flows | (618) | (354) |
| Decrease in net debt on acquisitions | - | (13) |

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| | | |
|------------------------------|-------|--------|
| Currency and other movements | 5 | 33 |
| Other non-cash movements | 28 | 30 |
| Net debt at end of period | 8,988 | 13,397 |

10 Provisions for liabilities and charges

| | At June 30 | |
|------------------------|--------------|--------------|
| | 2003 GBPm | 2002 GBPm |
| Deferred taxation | 2,017 | 2,146 |
| Pension provisions (a) | 33 | 32 |
| Other provisions | 300 | 150 |
| | 2,350 | 2,328 |

(a) The pension prepayment relating to the BT Pension Scheme of GBP590m at June 30, 2003 (GBP231m last year) and GBP630m at March 31, 2003 is included in debtors and falls due after more than one year.

11 Share capital and reserves

| | Share capital GBPm | Reserves GBPm |
|---|-----------------------|------------------|
| Balances at April 1, 2003 | 434 | 2,146 |
| Profit for the three months ended June 30, 2003 | - | - |
| Currency movements (a) | - | - |
| Balances at June 30, 2003 | 434 | 2,146 |

a. Includes GBP39m movement on the retranslation of foreign borrowings and other hedging instruments in the three months ended June 30, 2003.

12 Earnings before interest, taxation, depreciation and amortisation (EBITDA) before exceptional items

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| | First quarter ended June 30 | |
|--|-----------------------------|-------|
| | 2003 | 2002 |
| | GBPm | GBPm |
| Group operating profit | 727 | 562 |
| Exceptional items | - | - |
| Depreciation and amortisation of intangible assets | 730 | 733 |
| Goodwill amortisation | 3 | 8 |
| EBITDA before exceptional items | 1,460 | 1,303 |

13 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.

| | First quarter ended June 30 | |
|--|-----------------------------|------|
| | 2003 | 2002 |
| | GBPm | GBPm |
| Net income attributable to shareholders (GBPm) including exceptional items | 288 | 211 |
| Earnings per ADS (GBP) | | |
| - basic | 0.33 | 0.24 |
| - diluted | 0.33 | 0.24 |

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 GBP2,334m deficit at June 30, 2003 (June 30, 2002 - GBP4,208m deficit, March 31, 2003 - GBP2,258m deficit).

Non-financial statistics

June 30

June

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| | 2003 | 2002 |
|--|--------|--------|
| BT Group | | |
| Exchange lines: | | |
| Business, including wholesale (000s) | 9,215 | 9,100 |
| Consumer, including service providers (000s) | 20,492 | 20,100 |
| BT Retail | | |
| BT Openworld Broadband (000s) | 333 | 1,000 |
| BT Broadband (000s) | 203 | |
| Total ISP customer base (000s) | 2,035 | 1,700 |
| BT Wholesale | | |
| ADSL lines provided (000s) | 1,058 | 2,000 |
| Network volume growth (a) | 3% | |
| % of UK households with Broadband availability | 71% | 6% |
| BT Global Services | | |
| Inter-city fibre network (kms) (b) | 48,000 | 57,000 |
| Web hosting centres | 22 | |
| Dial access ports (000s) | 615 | 600 |

(a) Compared to same quarter in the prior year.

(b) Of which over 45,000 route kilometres are held through our wholly owned businesses in Europe.

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: expectations regarding broadband growth and the benefits of other new wave initiatives; the possible or assumed future results of operations of BT and/or its lines of business; expectations regarding revenue growth,

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capital expenditure, investment plans, cost reductions, improved efficiencies and cash savings, and pension funding.

Although BT Group 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; and general financial market conditions affecting BT's performance. BT Group 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. Head of Shareholder Services

Date 31 July, 2003