30 January 2015

BT GROUP PLC

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2014

BT Group plc (BT.L) today announced its results for the third quarter and nine months to 31 December 2014.

		Third quarter to 31 December 2014		Nine months to 31 December 2014	
		£m	Change	**£m**	Change
Revenue[1]		**4,475**	(3)%	**13,212**	(2)%
Underlying revenue[2] excluding transit			(1.0)%		(0.1)%
EBITDA[1]		**1,567**	2%	**4,452**	1%
Profit before tax	- adjusted[1]	**814**	13%	**2,142**	11%
	- reported	**694**	12%	**1,803**	15%
Earnings per share	- adjusted[1]	**8.0p**	10%	**21.4p**	12%
	- reported	**6.9p**	10%	**18.1p**	(2)%
Normalised free cash flow[3]		**908**	£354m	**1,563**	£459m
Net debt				**6,202**	£(1,438)m

Gavin Patterson, Chief Executive, commenting on the results, said:

"This quarter we have delivered good growth in profit before tax and strong free cash flow.

"Openreach achieved the highest growth in the number of landlines on record. It was also our best ever quarter for fibre broadband net additions. All the major communications providers are responding to the strong market demand for fibre broadband, helping to drive take-up in what is already a very competitive market.

"Our superfast fibre broadband network now covers around three-quarters of the UK. BT has been at the forefront of fibre innovation and investment, from which all communications providers benefit. We aim to keep it that way. So today we're announcing large-scale pilots this summer of ultrafast broadband with G.fast. We now think we can deploy this technology at scale which will enable us to deliver ultrafast speeds of up to 500Mbps to most of the UK within a decade.

"I am pleased that we have agreed the 2014 triennial funding valuation and recovery plan with the Trustee of the BT Pension Scheme. The funding deficit is £7.0bn at 30 June 2014, an increase from 2011 reflecting the low interest rate environment. Over the next three years we will pay £2.0bn into the scheme, which is less than we paid over the previous three years. We have agreed a 16 year recovery plan reflecting the strength and sustainability of our future cash flow generation.

"Mobility is a key growth area for us. We are making good progress on our due diligence in relation to a possible acquisition of EE and will make further announcements in due course. In the meantime, our Consumer mobile launch plans remain on track."

Financial highlights for the third quarter:

- Underlying revenue[2] excluding transit down 1%
- Underlying operating costs[4] excluding transit down 3% reflecting the benefit of our cost transformation activities
- EBITDA[1] up 2% and earnings per share[1] up 10%
- Normalised free cash flow[3] of £908m, up 64%
- Outlook reaffirmed

[1] Before specific items. Specific items are defined on page 3
[2] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
[3] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
[4] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals, and is before depreciation and amortisation

GROUP RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2014

	Third quarter to 31 December			Nine months to 31 December		
	2014	2013	Change	**2014**	2013	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- adjusted[1]	**4,475**	4,599	(3)	**13,212**	13,539	(2)
- reported	**4,475**	4,599	(3)	**13,270**	13,539	(2)
- underlying revenue excluding transit			(1.0)			(0.1)
EBITDA						
- adjusted[1]	**1,567**	1,537	2	**4,452**	4,411	1
- reported	**1,519**	1,491	2	**4,306**	4,229	2
Operating profit						
- adjusted[1]	**949**	867	9	**2,564**	2,367	8
- reported	**901**	821	10	**2,418**	2,185	11
Profit before tax						
- adjusted[1]	**814**	722	13	**2,142**	1,926	11
- reported	**694**	617	12	**1,803**	1,565	15
Earnings per share						
- adjusted[1]	**8.0p**	7.3p	10	**21.4p**	19.1p	12
- reported	**6.9p**	6.3p	10	**18.1p**	18.5p	(2)
Capital expenditure	**599**	581	3	**1,648**	1,772	(7)
Normalised free cash flow[2]	**908**	554	64	**1,563**	1,104	42
Net debt				**6,202**	7,640	£(1,438)m

Line of business results[1]

	Revenue			EBITDA			Free cash flow[2]		
Third quarter to	**2014**	2013[3]	Change	**2014**	2013[3]	Change	**2014**	2013[3]	Change
31 December	**£m**	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**1,694**	1,847	(8)	**261**	290	(10)	**52**	111	(53)
BT Business	**789**	808	(2)	**266**	257	4	**224**	218	3
BT Consumer	**1,083**	1,014	7	**251**	175	43	**274**	99	177
BT Wholesale	**532**	589	(10)	**136**	146	(7)	**114**	30	280
Openreach	**1,255**	1,274	(1)	**651**	660	(1)	**471**	452	4
Other and intra-group items	**(878)**	(933)	6	**2**	9	(78)	**(227)**	(356)	36
Total	**4,475**	4,599	(3)	**1,567**	1,537	2	**908**	554	64

[1] Before specific items
[2] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
[3] Certain results have been restated. See Note 1 to the condensed consolidated financial statements

Notes:

1. The commentary focuses on the trading results on an adjusted basis, which is a non-GAAP measure, being before specific items. Unless otherwise stated, revenue, operating costs, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, profit before tax, net finance expense, earnings per share (EPS) and normalised free cash flow are measured before specific items. This is consistent with the way that financial performance is measured by management and reported to the Board and the Operating Committee and assists in providing a meaningful analysis of the trading results of the group. The directors believe that presentation of the group's results in this way is relevant to the understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Specific items may not be comparable with similarly titled measures used by other companies. Reported revenue, reported operating costs, reported EBITDA, reported operating profit, reported profit before tax, reported net finance expense, reported EPS and reported free cash flow are the equivalent unadjusted or statutory measures.

2. Trends in underlying revenue, trends in underlying operating costs, and underlying EBITDA are non-GAAP measures which seek to reflect the underlying performance of the group that will contribute to long-term profitable growth and as such exclude the impact of acquisitions and disposals, foreign exchange movements and any specific items. We focus on the trends in underlying revenue and underlying operating costs excluding transit as transit traffic is low-margin and is significantly affected by reductions in mobile termination rates.

Enquiries

Press office:
Ross Cook — Tel: 020 7356 5369

Investor relations:
Damien Maltarp — Tel: 020 7356 4909

A conference call for analysts and investors will be held at 9.00am today and a simultaneous webcast will be available at www.bt.com/results

We expect to announce the fourth quarter and full year results for 2014/15 on 7 May 2015.

About BT

BT is one of the world's leading providers of communications services and solutions, serving customers in more than 170 countries. Its principal activities include the provision of networked IT services globally; local, national and international telecommunications services to its customers for use at home, at work and on the move; broadband and internet products and services and converged fixed/mobile products and services. BT consists principally of five customer-facing lines of business: BT Global Services, BT Business, BT Consumer, BT Wholesale and Openreach.

For the year ended 31 March 2014, BT Group's reported revenue was £18,287m with reported profit before taxation of £2,312m.

British Telecommunications plc (BT) is a wholly-owned subsidiary of BT Group plc and encompasses virtually all businesses and assets of the BT Group. BT Group plc is listed on stock exchanges in London and New York.

For more information, visit www.btplc.com

BT Group plc

GROUP RESULTS FOR THE THIRD QUARTER TO 31 DECEMBER 2014

Overview
Our key measure of the group's revenue trend, underlying revenue excluding transit, was down 1%. The decline mainly reflects the timing of contract milestones within BT Global Services which benefited our third quarter results last year. For the nine months, underlying revenue excluding transit was flat.

BT Consumer revenue increased 7%, primarily driven by growth in broadband and TV. BT Business revenue declined modestly, reflecting lower call and line volumes as customers move to data and VoIP services. BT Wholesale's revenue performance improved compared with the second quarter but continued to be impacted by Ofcom's Narrowband Market Review. In Openreach, regulatory price changes offset good growth in fibre broadband, leading to a small revenue decline overall.

Our cost transformation activities this quarter led to an improvement in our EBITDA growth, despite the decline in revenue. Together with working capital movements and lower tax payments, normalised free cash flow[1] was up 64%.

We have passed almost 22m premises with our fibre broadband network, around three-quarters of the UK. Openreach achieved a record 375,000 fibre broadband net connections. Over 3.7m homes and businesses are now connected, 17% of those passed. We added 209,000 retail fibre broadband customers, taking our customer base to over 2.7m.

The UK broadband market[2] grew by 258,000, of which our retail share was 119,000 or 46%. Openreach grew the physical line base by 111,000, the best performance on record.

We have today announced large-scale pilots this summer of ultrafast broadband with G.fast technology in Huntingdon, Cambridgeshire and Gosforth, Newcastle. We expect to deploy this technology at scale and it will help us make ultrafast broadband speeds of up to 500Mbps available to most of the UK within a decade.

Mobility
In the quarter we entered into an exclusivity agreement with Deutsche Telekom and Orange in relation to a possible acquisition of their UK mobile business, EE. The period of exclusivity is ongoing, during which we aim to complete our due diligence and to conclude negotiations on a definitive agreement.

The potential acquisition would enable us to accelerate our existing mobility strategy whereby customers will benefit from innovative, seamless services that combine the power of fibre broadband, wi-fi and 4G. We would own the UK's most advanced 4G network, giving us greater control in terms of future investment and product innovation.

While continuing these exclusive discussions, we are progressing our own plans for providing enhanced fixed-mobile converged services for businesses and consumers. We remain confident of delivering on these plans should a transaction not take place.

Income statement
Reported and adjusted revenue of £4,475m were both down 3%. The decline mainly reflects a £49m negative impact from foreign exchange movements, a £26m reduction in transit revenue and a £3m impact from disposals. Underlying revenue excluding transit was down 1%.

Operating costs[3] decreased 5% to £2,908m. Underlying operating costs[4] excluding transit were down 3% reflecting the benefit of our cost transformation programmes. Adjusted EBITDA of £1,567m was up 2%, an improvement on recent quarters and despite EBITDA last year benefiting from the timing of contract milestones.

Depreciation and amortisation of £618m was down 8%, reflecting the more efficient delivery of our capital expenditure programmes over the last few years and some of our assets becoming fully depreciated. Adjusted net finance expense was £134m, down 7% due to lower net debt.

[1] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
[2] DSL and fibre
[3] Before depreciation and amortisation
[4] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals, and is before depreciation and amortisation

Adjusted profit before tax was £814m, up 13% mainly reflecting the decline in depreciation and amortisation. Reported profit before tax (which includes specific items) was £694m, up 12%. The effective tax rate on the profit before specific items was 19.9% (Q3 2013/14: 20.9%).

Adjusted EPS of 8.0p was up 10%. Reported EPS (which includes specific items) was 6.9p, also up 10%. Our EPS measures are based on a weighted average number of shares in issue of 8,122m (Q3 2013/14: 7,867m).

Specific items

Specific items resulted in a net charge after tax of £94m (Q3 2013/14: £78m). Net interest expense on pensions was £72m (Q3 2013/14: £59m). Restructuring charges of £54m (Q3 2013/14: £46m) were incurred as part of our group-wide restructuring programme and relate primarily to leavers and property and network rationalisation. We recognised a net profit of £6m on investment disposals (Q3 2013/14: £nil). The tax credit on specific items was £26m (Q3 2013/14: £27m).

Capital expenditure

Capital expenditure of £599m was up 3% and was net of £94m grant funding (Q3 2013/14: £42m) relating to our activity on the Broadband Delivery UK (BDUK) programme. For the nine months, capital expenditure was £1,648m, down 7% largely reflecting phasing during the year.

Free cash flow

Normalised free cash flow was an inflow of £908m, up 64%. The increase mainly reflects movements in working capital and lower tax payments primarily as a result of tax-deductible all-employee share option plan maturities in the second quarter.

The net cash benefit of specific items was £4m (Q3 2013/14: £58m outflow). This comprised receipts of £57m relating to the ladder pricing judgment (see Regulation below) and £8m from investment disposals, offset by restructuring costs of £54m (Q3 2013/14: £43m) and property rationalisation costs of £7m (Q3 2013/14: £7m). After specific items and a £15m (Q3 2013/14: £19m) cash tax benefit from pension deficit payments, reported free cash flow was an inflow of £927m (Q3 2013/14: £515m).

Net debt and liquidity

Net debt was £6,202m at 31 December 2014, a decrease of £861m since 30 September 2014 and £1,438m lower than at 31 December 2013. In the quarter, reported free cash flow of £927m was partly offset by £52m spent on our share buyback programme. So far this year we have spent £249m and we continue to expect to spend around £300m for the year as a whole.

At 31 December 2014 the group had cash and current investment balances of £2.8bn and a £1.5bn credit facility, providing us with a strong liquidity and funding position. Debt of £0.3bn is repayable during the fourth quarter of 2014/15.

Pensions

The IAS 19 net pension position at 31 December 2014 was a deficit of £6.3bn net of tax (£7.9bn gross of tax) compared with £5.9bn (£7.3bn gross of tax) at 30 September 2014. The higher deficit primarily reflects a fall in the real discount rate to 0.63%, its lowest ever quarter-end level, partly offset by higher asset values. The IAS 19 accounting position and key assumptions for the IAS 19 valuation are:

	31 December 2014	30 September 2014	31 March 2014
	£bn	£bn	£bn
IAS 19 liabilities – BTPS	**(49.1)**	(47.9)	(46.7)
Assets – BTPS	**41.4**	40.8	39.9
IAS 19 deficit – other schemes	**(0.2)**	(0.2)	(0.2)
Total IAS 19 deficit, gross of tax	**(7.9)**	(7.3)	(7.0)
Total IAS 19 deficit, net of tax	**(6.3)**	(5.9)	(5.6)
Discount rate (nominal)	3.55%	3.90%	4.25%
Discount rate (real)	0.63%	0.82%	0.97%
RPI inflation	2.90%	3.05%	3.25%
CPI inflation	1.0% below RPI until 31 March 2016 and 1.2% below RPI thereafter	1.0% below RPI until 31 March 2016 and 1.2% below RPI thereafter	0.75% below RPI until 31 March 2016 and 1.2% below RPI thereafter

BT and the Trustee of the BT Pension Scheme (BTPS) have reached agreement on the 2014 triennial funding valuation and recovery plan. The funding deficit at 30 June 2014 is £7.0bn with the increase from the 2011 valuation reflecting the low interest rate environment at the valuation date.

	30 June 2014	30 June 2011
	£bn	£bn
BTPS funding liabilities	**(47.2)**	(40.8)
BTPS assets	**40.2**	36.9
BTPS funding deficit	**(7.0)**	(3.9)
BTPS funding level	**85.2%**	90.4%

A 16 year recovery plan has been agreed reflecting BT's long-term and sustainable cash flow generation. Over the next three years payments will total £2.0bn. BT will pay £1.5bn by the end of April 2015 out of existing cash and current investment balances which totalled £2.8bn at 31 December 2014. This will be followed by £250m in each of the years to March 2016 and March 2017.

Further details are set out in a separate announcement which can be found at www.btplc.com

Regulation

In July 2014 the Supreme Court overturned a Court of Appeal judgment, made in July 2012, which had disallowed our ladder pricing policy. We received the Supreme Court Order in December 2014 and have started the process of recovering the money that we refunded to the mobile operators as a result of the Court of Appeal ruling. We received £57m of cash in the quarter, which has been treated as a specific item. We have not recognised any benefit from ladder pricing in our trading results for the quarter.

In November 2014 we were successful in our application to the Competition Appeal Tribunal for interim relief in relation to the supply of Sky Sports 1 and 2 on our YouView platform. This follows our application to the Tribunal in April to update a 2010 court order that restricted the scope of Ofcom's original Wholesale-Must-Offer remedy for the supply of Sky Sports 1 and 2, solely to digital terrestrial television. We launched Sky Sports 1 and 2 on YouView on 16 December 2014.

On 15 January 2015 Ofcom published a draft Statement on its methodology for assessing the margin BT makes on retail fibre broadband. The European Commission has a month to review the draft Statement, after which Ofcom is expected to publish a final version in February, taking into account comments received. The methodology aims to assess the retail unit margin of BT's weighted average fibre broadband customer acquired over a six month period. The draft Statement provides detail on the way in which certain revenue and cost items will be treated and Ofcom has indicated that it believes BT currently passes this new test. We are reviewing the draft Statement in detail and considering our response, which may include an appeal.

Outlook

Our outlook remains unchanged. We continue to expect underlying revenue excluding transit in 2014/15 to be broadly level with 2013/14 with growth in 2015/16. We expect adjusted EBITDA of £6.2bn - £6.3bn in 2014/15 with further growth in 2015/16. Normalised free cash flow is expected to be more than £2.6bn this year and to grow in 2015/16.

We continue to target a BBB+/Baa1 credit rating over the medium term. We expect to grow our dividends per share by 10% - 15% in both 2014/15 and 2015/16. We also intend to maintain our share buyback of around £300m in each of these years, to help counteract the dilutive effect of all-employee share options plans maturing over this period.

OPERATING REVIEW

BT Global Services

	Third quarter to 31 December				Nine months to 31 December			
	2014	2013[1]	Change		**2014**	2013[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,694**	1,847	(153)	(8)	**4,990**	5,342	(352)	(7)
- underlying excluding transit				(7)				(3)
Operating costs	**1,433**	1,557	(124)	(8)	**4,290**	4,620	(330)	(7)
EBITDA	**261**	290	(29)	(10)	**700**	722	(22)	(3)
Depreciation & amortisation	**127**	154	(27)	(18)	**391**	459	(68)	(15)
Operating profit	**134**	136	(2)	(1)	**309**	263	46	17
Capital expenditure	**121**	143	(22)	(15)	**343**	384	(41)	(11)
Operating cash flow	**52**	111	(59)	(53)	**(250)**	(60)	(190)	(317)

[1] Restated, see Note 1 to the condensed consolidated financial statements

Revenue declined 8% including a £43m negative impact from foreign exchange movements. Transit revenue increased £6m. Underlying revenue excluding transit decreased 7% partly reflecting the timing of contract milestones which benefited our third quarter results last year.

Revenue in the UK was down 18% reflecting lower public sector revenue, continuing the declines seen in recent quarters, and the effect of the prior year contract milestones. The decline in the UK was partially offset by an increase in underlying revenue excluding transit in the high-growth regions[2] and also in Europe, which benefited from improved volumes and new customer installations. In the US and Canada, revenue declined reflecting the migration of some services off a large contract.

Total order intake was £2.1bn, up 36%. Order intake was £6.7bn on a rolling twelve-month basis, down 1% year on year but up 9% since the second quarter. We signed a new contract with the Welsh Government to operate their country-wide public sector broadband network supporting 80 public service organisations across 4,000 sites. We expanded our relationship with Royal Mail to provide 76,000 handheld devices to its UK delivery staff. We also renewed a contract with Procter & Gamble for managed network and security services in more than 80 countries.

We launched a new cloud-based customer relationship management service for companies to produce personalised videos that keep their customers individually engaged. We opened a new data centre in Colombia to address the growing demand for cloud-based services in Latin America.

Operating costs declined 8%. Underlying operating costs excluding transit declined 6% reflecting our continued focus on cost transformation and the effect of the prior year contract milestones.

EBITDA declined 10%. Excluding foreign exchange movements, underlying EBITDA declined 8% reflecting the effect of the contract milestones. Excluding these, underlying EBITDA for the nine months was broadly level. Depreciation and amortisation reduced 18% mainly due to lower capital expenditure in recent years and some of our assets becoming fully depreciated.

Capital expenditure declined 15% largely reflecting lower network expenditure and a property purchase in Latin America last year. Operating cash flow was an inflow of £52m. This was £59m below last year due to working capital movements and the reduction in EBITDA, partly offset by lower capital expenditure.

[2] Asia Pacific, Latin America, Turkey and the Middle East and Africa

BT Business

	Third quarter to 31 December				Nine months to 31 December			
	2014	2013[1]	Change		**2014**	2013[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**789**	808	(19)	(2)	**2,340**	2,392	(52)	(2)
- underlying excluding transit				(1)				(2)
Operating costs	**523**	551	(28)	(5)	**1,576**	1,652	(76)	(5)
EBITDA	**266**	257	9	4	**764**	740	24	3
Depreciation & amortisation	**48**	51	(3)	(6)	**136**	154	(18)	(12)
Operating profit	**218**	206	12	6	**628**	586	42	7
Capital expenditure	**42**	32	10	31	**98**	94	4	4
Operating cash flow	**224**	218	6	3	**645**	544	101	19

[1] Restated, see Note 1 to the condensed consolidated financial statements

Revenue was down 2% with underlying revenue excluding transit down 1%.

SME & Corporate voice revenue decreased 5% reflecting the continued decline in business call and line volumes, as customers move to data and VoIP services. SME & Corporate data and networking revenue increased 2% with continued growth in fibre broadband. Business fibre broadband net additions were up 45% year on year.

IT services revenue was flat as lower hardware sales were offset by growth in software sales and professional services. Foreign exchange movements had a £6m negative impact on BT Ireland revenue. Its underlying revenue excluding transit was also flat.

Order intake increased 3% to £515m and was up 8% to £2,117m on a rolling twelve-month basis. BT Ireland grew its order intake by more than 75% in the quarter, including contracts with NI Direct, Three Ireland and ICON.

We continued the rollout of BT Cloud Voice, our new business-grade IP voice service which we launched in the second quarter. Initial orders for the service have been encouraging.

Operating costs were down 5%. Underlying operating costs excluding transit were down 4%, mainly reflecting the impact of our cost transformation programmes, including a 9% reduction in total labour resource. The lower costs offset the decline in revenue and as a result EBITDA was up 4%.

Depreciation and amortisation was down 6% and operating profit grew 6%. Capital expenditure increased £10m. This was offset by growth in EBITDA and working capital movements which led to operating cash flow increasing 3%.

BT Consumer

	Third quarter to 31 December				Nine months to 31 December			
	2014	2013	Change		**2014**	2013	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,083**	1,014	69	7	**3,185**	2,951	234	8
Operating costs	**832**	839	(7)	(1)	**2,471**	2,387	84	4
EBITDA	**251**	175	76	43	**714**	564	150	27
Depreciation & amortisation	**50**	55	(5)	(9)	**159**	163	(4)	(2)
Operating profit	**201**	120	81	68	**555**	401	154	38
Capital expenditure	**47**	48	(1)	(2)	**138**	164	(26)	(16)
Operating cash flow	**274**	99	175	177	**606**	256	350	137

Revenue was up 7%, with a 15% increase in broadband and TV revenue and continued growth in calls and lines revenue.

Consumer ARPU grew 7% to £410. Our consumer line losses improved from 85,000 in the second quarter to 60,000. BT added 119,000 retail broadband customers, representing 46% of the DSL and fibre broadband market net additions. Fibre take-up continued to grow with 209,000 retail fibre broadband net additions, taking our customer base to over 2.7m. Of our broadband customers, over 35% are now on fibre.

We added to the range of products that help our customers save money. In the quarter, customers started to benefit from Right Plan, which helps households find the best value calling plan for them. We offer BT Basic with broadband, the UK's cheapest line and broadband bundle for low-income customers. In addition, our Home Phone Saver package, aimed at elderly or low-income customers, offers a discount to those who just want a standalone telephone package.

In the quarter we added 45,000 TV customers and further enhanced our TV proposition. We launched TV Everywhere, which means customers can watch TV channels on multiple devices, and we became the UK's first TV platform to make buy-to-keep movies available on multiple devices in addition to the set-top box. We also launched Netflix and a range of new packages.

In December we launched Sky Sports 1 and 2 on YouView, adding to our existing offering of BT Sport, ESPN and Eurosport. We have continued to grow our BT Sport residential and commercial customer bases. In just over a year since our launch, 25,000 commercial premises have signed up to BT Sport, including 30% of all UK pubs. Our audience figures continue to grow, with Premier League viewing on BT Sport up 17% so far this season.

Operating costs decreased 1% with savings from our cost transformation programmes partly offset by higher costs associated with the growth in revenue. EBITDA was up 43% reflecting a continued strong performance across voice and broadband. Depreciation and amortisation reduced 9% and operating profit was up 68%.

Capital expenditure reduced 2%. Operating cash flow increased £175m driven by the growth in EBITDA and as last year included the £60m deposit that we paid for the UEFA broadcast rights.

BT Wholesale

	Third quarter to 31 December				Nine months to 31 December			
	2014	2013	Change		**2014**	2013	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**532**	589	(57)	(10)	**1,586**	1,851	(265)	(14)
- underlying excluding transit				(5)				(10)
Operating costs	**396**	443	(47)	(11)	**1,199**	1,389	(190)	(14)
EBITDA	**136**	146	(10)	(7)	**387**	462	(75)	(16)
Depreciation & amortisation	**57**	60	(3)	(5)	**171**	186	(15)	(8)
Operating profit	**79**	86	(7)	(8)	**216**	276	(60)	(22)
Capital expenditure	**49**	61	(12)	(20)	**155**	188	(33)	(18)
Operating cash flow	**114**	30	84	280	**185**	153	32	21

Revenue decreased 10% or £57m, including a £30m decline in transit revenue.

Underlying revenue excluding transit decreased 5%, an improvement compared with the second quarter decline of 11%. The decline this quarter primarily reflects a continued reduction in our traditional calls, lines and circuits revenue, including the impact of lower fixed termination rates following Ofcom's Narrowband Market Review.

Managed solutions revenue declined 1%. This was an improvement on the 16% decline in the second quarter partly reflecting a much lower impact from the Post Office contract termination and some one-off contract revenue. Broadband revenue declined 17% as lines continue to migrate to LLU.

We continued to see good growth in IP services with revenue up 45%. As part of our focus on customer service, this quarter we improved the way we prioritise and resolve issues with our Ethernet ordering system, which has more than doubled the proportion we resolve within 24 hours.

Order intake of £439m was down 6%, but was a significant improvement compared with the second quarter. On a rolling twelve-month basis, order intake was £1,477m, down 33% due to the timing of re-signs on some of our major managed solutions deals. During the quarter we signed a contract with Telefonica O2 UK to support the upgrade of their core voice network to IP by moving it to our IP Exchange service. IP Exchange now carries over 1bn minutes a month.

Operating costs decreased 11%. Underlying operating costs excluding transit were down 5%, including a 19% reduction in selling and general administration costs as we continue to focus on our cost transformation activities.

EBITDA decreased 7% reflecting the lower revenue. Depreciation and amortisation reduced 5% and operating profit was down 8%.

Capital expenditure declined 20% reflecting lower spend on the Wholesale Broadband Connect rollout programme. Operating cash flow increased £84m partly reflecting lower capital expenditure and the impact last year of the timing of customer receipts.

Openreach

	Third quarter to 31 December				Nine months to 31 December			
	2014	2013	Change		**2014**	2013	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,255**	1,274	(19)	(1)	**3,745**	3,790	(45)	(1)
Operating costs	**604**	614	(10)	(2)	**1,843**	1,883	(40)	(2)
EBITDA	**651**	660	(9)	(1)	**1,902**	1,907	(5)	0
Depreciation & amortisation	**332**	345	(13)	(4)	**1,016**	1,069	(53)	(5)
Operating profit	**319**	315	4	1	**886**	838	48	6
Capital expenditure	**300**	249	51	20	**804**	797	7	1
Operating cash flow	**471**	452	19	4	**1,108**	1,032	76	7

Revenue was down 1% with regulatory price changes having a negative impact of around £45m, the equivalent of around 4%. The impact of regulation was partly offset by 36% growth in fibre broadband revenue.

The physical line base grew by 111,000, the best performance on record. It has increased by 144,000 over the past twelve months. The UK broadband market[1] increased by 258,000 connections in the quarter compared with 252,000 in the prior year.

We are making progress with extending the reach of fibre beyond our commercial footprint and in the quarter we passed a further 630,000 premises in the BDUK areas. In total, we have passed almost 22m premises with our fibre broadband network, around three-quarters of the UK.

We achieved a record 375,000 fibre broadband net connections, an increase of 11%, bringing the number of homes and businesses connected to over 3.7m, 17% of those passed. Of the additions in the quarter, 44% were provided to our external communications provider customers, showing the market-wide demand for fibre.

Operating costs were down 2% driven by cost efficiencies. EBITDA decreased 1% reflecting a smaller benefit from the sale of redundant copper. With depreciation and amortisation down 4%, operating profit was up 1%.

Capital expenditure increased 20% and is net of £94m grant funding (Q3 2013/14: £42m) relating to the BDUK programme. The higher capital expenditure was driven by an increase in BDUK fibre rollout, the expansion of our network to new homes and higher volumes of Ethernet provision. Operating cash flow increased 4% despite the higher capital expenditure, primarily as a result of lower outstanding trade debtors.

[1] DSL and fibre

FINANCIAL STATEMENTS

Group income statement
For the third quarter to 31 December 2014

	Before specific items £m	Specific items £m	Total £m
Revenue	4,475	-	**4,475**
Operating costs	(3,526)	(48)	**(3,574)**
Operating profit	949	(48)	**901**
Finance expense	(138)	(72)	**(210)**
Finance income	4	-	**4**
Net finance expense	(134)	(72)	**(206)**
Share of post-tax losses of associates and joint ventures	(1)	-	**(1)**
Profit before tax	814	(120)	**694**
Tax	(162)	26	**(136)**
Profit for the period	652	(94)	**558**
Earnings per share			
- basic	8.0p		**6.9p**
- diluted	7.9p		**6.8p**

Group income statement
For the third quarter to 31 December 2013

	Before specific items £m	Specific items £m	Total £m
Revenue	4,599	-	**4,599**
Operating costs	(3,732)	(46)	**(3,778)**
Operating profit	867	(46)	**821**
Finance expense	(150)	(59)	**(209)**
Finance income	6	-	**6**
Net finance expense	(144)	(59)	**(203)**
Share of post-tax losses of associates and joint ventures	(1)	-	**(1)**
Profit before tax	722	(105)	**617**
Tax	(151)	27	**(124)**
Profit for the period	571	(78)	**493**
Earnings per share			
- basic	7.3p		**6.3p**
- diluted	6.9p		**6.0p**

Group income statement
For the nine months to 31 December 2014

	Before specific items £m	Specific items £m	Total £m
Revenue	13,212	58	**13,270**
Operating costs	(10,648)	(204)	**(10,852)**
Operating profit	2,564	(146)	**2,418**
Finance expense	(433)	(218)	**(651)**
Finance income	11	-	**11**
Net finance expense	(422)	(218)	**(640)**
Profit on disposal of interest in associate	-	25	**25**
Profit before tax	2,142	(339)	**1,803**
Tax	(426)	68	**(358)**
Profit for the period	1,716	(271)	**1,445**
Earnings per share			
- basic	21.4p		**18.1p**
- diluted	21.1p		**17.8p**

Group income statement
For the nine months to 31 December 2013

	Before specific items £m	Specific items £m	Total £m
Revenue	13,539	-	**13,539**
Operating costs	(11,172)	(182)	**(11,354)**
Operating profit	2,367	(182)	**2,185**
Finance expense	(448)	(176)	**(624)**
Finance income	10	-	**10**
Net finance expense	(438)	(176)	**(614)**
Share of post-tax losses of associates and joint ventures	(3)	-	**(3)**
Loss on disposal of interest in associate	-	(3)	**(3)**
Profit before tax	1,926	(361)	**1,565**
Tax	(422)	309	**(113)**
Profit for the period	1,504	(52)	**1,452**
Earnings per share			
- basic	19.1p		**18.5p**
- diluted	18.3p		**17.6p**

Group cash flow statement

For the third quarter and nine months to 31 December

	Third quarter to 31 December		Nine months to 31 December	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Profit before tax	**694**	617	**1,803**	1,565
Depreciation and amortisation	**618**	670	**1,888**	2,044
Net finance expense	**206**	203	**640**	614
Loss on disposal of subsidiary	**2**	-	**1**	-
(Profit) loss on disposal of associate	**-**	-	**(25)**	3
Associates and joint ventures	**1**	1	**-**	3
Profit on disposal of non-current asset investment	**(8)**	-	**(8)**	-
Share-based payments	**18**	15	**54**	49
Decrease (increase) in working capital	**188**	(93)	**(618)**	(915)
Provisions, pensions and other non-cash movements	**6**	7	**104**	50
Cash generated from operations	**1,725**	1,420	**3,839**	3,413
Tax paid	**(55)**	(133)	**(286)**	(216)
Net cash inflow from operating activities	**1,670**	1,287	**3,553**	3,197
Cash flow from investing activities				
Interest received	**3**	1	**7**	4
Dividends received from associates and joint ventures	**-**	1	**-**	1
Proceeds on disposal of property, plant and equipment	**1**	3	**4**	7
Acquisition of subsidiaries, net of cash acquired	**(3)**	-	**(6)**	(18)
Sale of subsidiaries, net of bank overdrafts	**(2)**	-	**-**	-
Acquisition of associates and joint ventures	**(6)**	-	**(9)**	(2)
Disposal of associates and joint ventures	**-**	-	**26**	2
Purchases of property, plant and equipment and software	**(569)**	(571)	**(1,623)**	(1,809)
Net proceeds on disposals and purchases of non-current asset investments	**8**	-	**6**	-
Purchase of current financial assets	**(2,016)**	(1,655)	**(6,128)**	(5,946)
Sale of current financial assets	**995**	1,713	**5,729**	5,620
Net cash used in investing activities	**(1,589)**	(508)	**(1,994)**	(2,141)
Cash flow from financing activities				
Interest paid	**(186)**	(206)	**(482)**	(502)
Equity dividends paid	**(4)**	(3)	**(608)**	(511)
New borrowings	**-**	-	**812**	400
Repayment of borrowings	**(8)**	(318)	**(1,159)**	(321)
Repayment of finance lease liabilities	**-**	-	**-**	(11)
Cash flows from derivatives related to net debt	**109**	(48)	**159**	(228)
Net proceeds on (repayment of) commercial paper	**-**	1	**(338)**	(157)
Proceeds on issue of own shares	**3**	7	**195**	59
Repurchase of ordinary share capital	**(52)**	(76)	**(249)**	(228)
Net cash used in financing activities	**(138)**	(643)	**(1,670)**	(1,499)
Net (decrease) increase in cash and cash equivalents	**(57)**	136	**(111)**	(443)
Opening cash and cash equivalents	**631**	315	**684**	919
Net (decrease) increase in cash and cash equivalents	**(57)**	136	**(111)**	(443)
Effect of exchange rate movements	**1**	(5)	**2**	(30)
Closing cash and cash equivalents including overdrafts	**575**	446	**575**	446
Add back bank overdrafts	**18**	8	**18**	8
Closing cash and cash equivalents	**593**	454	**593**	454

Group balance sheet

	31 December 2014 £m	31 December 2013 £m	31 March 2014 £m
Non-current assets			
Intangible assets	**3,082**	3,116	3,087
Property, plant and equipment	**13,584**	13,910	13,840
Derivative financial instruments	**935**	492	539
Investments	**42**	38	34
Associates and joint ventures	**26**	19	18
Trade and other receivables	**151**	216	214
Deferred tax assets	**1,568**	1,494	1,460
	19,388	19,285	19,192
Current assets			
Programme rights	**196**	179	108
Inventories	**103**	134	82
Trade and other receivables	**3,235**	3,166	2,907
Current tax receivable	**23**	-	26
Derivative financial instruments	**27**	64	114
Investments	**2,170**	857	1,774
Cash and cash equivalents	**593**	454	695
	6,347	4,854	5,706
Current liabilities			
Loans and other borrowings	**1,737**	2,013	1,873
Derivative financial instruments	**74**	142	139
Trade and other payables	**5,053**	5,134	5,261
Current tax liabilities	**252**	243	315
Provisions	**111**	93	99
	7,227	7,625	7,687
Total assets less current liabilities	**18,508**	16,514	17,211
Non-current liabilities			
Loans and other borrowings	**7,737**	7,179	7,941
Derivative financial instruments	**859**	626	679
Retirement benefit obligations	**7,895**	7,293	7,022
Other payables	**916**	899	898
Deferred tax liabilities	**937**	1,019	829
Provisions	**405**	448	434
	18,749	17,464	17,803
Equity			
Ordinary shares	**408**	408	408
Reserves (deficit)	**(649)**	(1,358)	(1,000)
Total deficit	**(241)**	(950)	(592)
	18,508	16,514	17,211

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

These condensed consolidated financial statements ('the financial statements') comprise the financial results of BT Group plc for the quarters and nine months to 31 December 2014 and 2013 together with the audited balance sheet at 31 March 2014.

These financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2014, other than the change outlined below, and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

These financial statements do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been audited or reviewed by the independent auditors. Statutory accounts for the year to 31 March 2014 were approved by the Board of Directors on 7 May 2014, published on 22 May 2014 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006. These financial statements should be read in conjunction with the annual financial statements for the year to 31 March 2014.

Restatement of certain line of business results

From 1 April 2014 BT Conferencing and BT Security have moved into BT Global Services from BT Business and our central group functions respectively. This will help us simplify the way we provide integrated collaboration solutions to our global customers, better compete in the market and take full advantage of global opportunities. Comparative results for BT Global Services, BT Business and Other and intra-group items have been restated to be presented on a consistent basis.

The impact on the line of business results for the third quarter ending 31 December 2013 was to increase revenue, EBITDA and operating cash flow in BT Global Services by £53m, £27m and £33m respectively and to reduce revenue, EBITDA and operating cash flow in BT Business by £72m, £24m and £29m respectively. Central group functions revenue, EBITDA and operating cash flow reduced by £12m, £3m and £4m respectively. Intra-group eliminations on revenue decreased by £31m.

The impact on line of business results for the nine months ending 31 December 2013 was to increase revenue, EBITDA and operating cash flow in BT Global Services by £158m, £76m and £68m respectively and to reduce revenue, EBITDA and operating cash flow in BT Business by £222m, £71m and £68m respectively. Central group functions revenue reduced by £18m and EBITDA reduced by £5m. Intra-group eliminations on revenue decreased by £82m.

These organisational changes do not impact the results of BT Consumer, BT Wholesale or Openreach and there is no impact on the total group results. More details are set out in our related press release published on 16 June 2014.

We have also revised balance sheet comparatives to present them on a consistent basis with the audited balance sheet at 31 March 2014. Accrued income at 31 December 2013 increased by £44m, with a corresponding increase of £44m in deferred income.

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: current and future years' outlook, including revenue growth, EBITDA and free cash flow; our mobility plans and the benefits of potentially acquiring EE; our pension recovery plan; our liquidity and funding position and our share buyback programme; our target credit rating; dividend growth; our fibre broadband rollout and deployment of G.fast technology, customer demand for ultrafast broadband, and our net connections; our BT Sport offering and enhanced TV proposition; and the commercial and financial impact of regulatory and legal decisions and outcomes of appeals.

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

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions, decisions, and conditions or requirements in BT's operating areas, including competition from others; future legal actions; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs, or impact on customer service; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services or possible acquisitions not being realised; the timing of entry and profitability of BT in certain communications markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the group-wide restructuring programme not being achieved; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.