3 February 2011

BT GROUP PLC

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2010

BT Group plc (BT.L) today announces its results for the third quarter and nine months to 31 December 2010.

Key points for the third quarter:

- Revenue of £5,038m, down 3%
- EBITDA[1] of £1,484m, up 7%
- Profit before tax[1] of £531m, up 30% (after specific items, up 111%)
- Earnings per share[1] of 5.4p, up 32% (after specific items, up 96%)
- Free cash flow[2] of £515m, up 69%
- Net debt of £8.7bn, down £1.4bn
- DSL broadband net additions of 188,000, 53% market share
- BT Global Services expected to generate operating cash flow of around £100m in 2010/11 and around £200m in 2011/12

Ian Livingston, Chief Executive, commenting on the results, said:

"Profits and cash flow in the quarter were ahead of last year. BT Retail had a good quarter with growth in business revenues and our highest share of DSL broadband net additions for eight years. Openreach benefited from a stronger broadband market and growth in its copper line base. BT Global Services is now expected to be cash flow positive this year, a year earlier than targeted.

"These results show that we are making progress on a number of fronts. There is always more to do but our performance underpins our outlook for this year and the period to 2012/13."

[1] Before specific items
[2] Before pension deficit payment of £525m (Q3 2009/10: £525m)

Unless otherwise stated, the changes in results are year on year against the third quarter or nine months to 31 December 2009.

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2010

Group results

	Third quarter to 31 December			Nine months to 31 December		
	2010	2009	Change	**2010**	2009	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- adjusted[1]	**5,038**	5,198	(3)	**15,021**	15,555	(3)
- reported	**5,038**	5,198	(3)	**15,021**	15,503	(3)
EBITDA						
- adjusted[1]	**1,484**	1,386	7	**4,335**	4,127	5
- reported	**1,418**	1,227	16	**4,147**	3,821	9
Operating profit						
- adjusted[1]	**733**	632	16	**2,118**	1,876	13
- reported	**628**	473	33	**1,891**	1,570	20
Profit before tax						
- adjusted[1]	**531**	408	30	**1,473**	1,230	20
- reported	**441**	209	111	**1,222**	756	62
Earnings per share						
- adjusted[1]	**5.4p**	4.1p	32	**14.9p**	12.2p	22
- reported	**4.5p**	2.3p	96	**13.3p**	10.6p	25
Capital expenditure	**680**	554	23	**1,811**	1,671	8
Free cash flow[2]						
- before specific items	**569**	526	8	**1,604**	1,017	58
- after specific items	**515**	305	69	**1,465**	888	65
Net debt				**8,674**	10,112	(14)

Line of business results

	Adjusted revenue			Adjusted EBITDA[1]			Operating cash flow		
Third quarter to	**2010**	2009[3]	Change	**2010**	2009[4]	Change	**2010**	2009	Change
31 December	**£m**	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**1,974**	2,118	(7)	**141**	123	15	**115**	(27)	n/m
BT Retail	**1,967**	2,020	(3)	**452**	436	4	**324**	371	(13)
BT Wholesale	**1,070**	1,075	-	**330**	337	(2)	**141**	224	(37)
Openreach	**1,240**	1,241	-	**550**	488	13	**316**	321	(2)
Other and intra-group items	**(1,213)**	(1,256)	3	**11**	2	n/m	**(381)**	(584)	35
Total	**5,038**	5,198	(3)	**1,484**	1,386	7	**515**	305	69

[1] Before specific items. Specific items are defined below
[2] Before pension deficit payment of £525m (Q3 2009/10: £525m)
[3] Adjusted for the impact of customer account moves and the impact of changes in the internal trading model. The effect of the changes is primarily to reduce internal revenue in both BT Wholesale and Openreach by around £62m per quarter in 2010/11. There is no impact from these changes on total group revenue. In the line of business commentaries for BT Wholesale and Openreach, revenue has been measured against an adjusted basis taking account of the changes in the internal trading model to enable a like for like comparison
[4] Restated for the impact of customer account moves
n/m = not meaningful

Notes:
Specific items - unless otherwise stated, any reference to earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, operating costs, profit before tax and earnings per share (EPS) are measured before specific items. The commentary focuses on the trading results before specific items. This is consistent with the way that financial performance is measured by management and is 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 to similarly titled measures used by other companies.

Reported EBITDA, reported operating profit, reported profit before tax and reported EPS are the equivalent unadjusted or statutory measures.

Enquiries

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A conference call for analysts and investors will be held at **10:30am** today and a simultaneous webcast will be available at www.bt.com/results.

The fourth quarter and full year results to 31 March 2011 are expected to be announced on 12 May 2011.

About BT
BT is one of the world's leading providers of communications solutions and services operating in over 170 countries. Its principal activities include the provision of networked IT services globally; local, national and international telecommunications services to our 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 four lines of business: BT Global Services, BT Retail, BT Wholesale and Openreach.

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

RESULTS FOR THE THIRD QUARTER TO 31 DECEMBER 2010

GROUP RESULTS

Operating results overview

Revenue was down 3% to £5,038m. Excluding the reduction in low margin transit revenue, which includes the impact of mobile termination rate reductions, revenue was down 2%. Adjusted EBITDA increased by 7% to £1,484m reflecting continued delivery of cost reductions and lower leaver costs. Foreign exchange movements had no significant impact on group revenue or EBITDA in the quarter.

Total group operating costs reduced by £238m or 5%, to £4,408m. Depreciation and amortisation was £751m, broadly flat year on year. Excluding depreciation and amortisation, group operating costs reduced by £235m or 6% in the quarter and £722m in the nine months.

Total labour costs decreased by 3% to £1,436m. Direct labour costs, before leaver costs, decreased by 1% to £1,201m with the reduction in direct labour resource being largely offset by pay inflation and higher pension costs. Leaver costs were £12m (Q3 2009/10: £58m). Indirect labour costs reduced by 9% as the group continues to reduce agency and contractor resource and redeploy existing permanent staff to protect jobs where possible.

Payments to telecommunications operators were down by 12% to £937m reflecting lower mobile termination rates and transit and wholesale call volumes. Property and energy costs were 12% lower reflecting efficiency savings and lower energy prices.

Capital expenditure increased by £126m to £680m mainly due to the ongoing investment in our fibre roll out programme.

Net finance expense

Net finance expense was £207m, a decrease of £16m, reflecting the lower net debt levels and the maturing of high coupon debt in the quarter.

Tax

The effective tax rate on the profit before specific items was 21.7% for the nine months, in line with our current expectations for the full year.

Specific items

Specific operating costs comprise property rationalisation charges of £26m (Q3 2009/10: £nil), BT Global Services restructuring charges of £40m (Q3 2009/10: £159m) and intangible asset impairment charges of £39m (Q3 2009/10: £nil). Net interest expense on pensions was £20m (Q3 2009/10: £69m). In addition, there was a profit of £35m from the disposal of a 5.5% interest in our associate Tech Mahindra, reducing our holding to 24.4%. The tax credit in respect of these items was £19m (Q3 2009/10: £63m).

Earnings per share

Adjusted EPS was 5.4p, up 32% due to the higher operating profit and lower net finance expense. Reported EPS was 4.5p, up 96% primarily due to lower specific item charges compared with the prior year.

Free cash flow

Free cash flow was an inflow of £515m (Q3 2009/10: £305m) before the pension deficit payment of £525m (Q3 2009/10: £525m) reflecting improved profitability and working capital, partially offset by higher capital expenditure. There was a net cash outflow of £54m relating to specific items (Q3 2009/10: £221m outflow) principally comprising BT Global Services restructuring charges. Excluding these items, free cash flow before specific items was £569m (Q3 2009/10: £526m). In addition, we received £67m from the disposal of a 5.5% interest in Tech Mahindra.

Net debt and liquidity

Net debt was £8,674m at 31 December 2010 (31 December 2009: £10,112m) a reduction of £1,438m in the year. During the quarter our 9.375% 2010 US$ bond matured resulting in a repayment of £1,742m, funded through existing cash and investment balances. After this repayment, cash and investment balances at 31 December 2010 were £1,195m.

Pensions
The IAS 19 net pension position at 31 December 2010 was a deficit of £2.7bn net of tax (£3.7bn gross of tax), compared with a deficit of £5.7bn at 31 March 2010 (£7.9bn gross of tax). The market value of the BT Pension Scheme assets has increased by £1.1bn since 31 March 2010 to £36.4bn at 31 December 2010, and the value of liabilities has decreased by £3.0bn to £40.0bn. The liability calculation is based on the AA bond rate of 5.40% (31 March 2010: 5.50%) and future RPI inflation expectations of 3.35% (31 March 2010: 3.60%). The reduction in liabilities includes the £2.9bn impact of the government's decision regarding the future indexation of pensions.

Outlook
We now expect BT Global Services to be cash flow positive a year earlier than previously targeted, generating operating cash flow of around £100m in 2010/11. For 2011/12, we expect BT Global Services to generate operating cash flow of around £200m. Otherwise our outlook remains unchanged.

OPERATING REVIEW

BT Global Services

	Third quarter to 31 December				**Nine months to 31 December**	
	2010	2009	Change		**2010**	2009
	£m	£m	£m	%	**£m**	£m
Revenue	**1,974**	2,118	(144)	(7)	**5,972**	6,221
Net operating costs[1]	**1,833**	1,995	(162)	(8)	**5,563**	5,941
EBITDA	**141**	123	18	15	**409**	280
Depreciation & amortisation	**176**	194	(18)	(9)	**539**	571
Operating loss	**(35)**	(71)	36	51	**(130)**	(291)
Capital expenditure	**128**	120	8	7	**355**	382
Operating cash flow	**115**	(27)	142	n/m	**49**	(595)

[1] Net of other operating income

Revenue
Revenue decreased by 7% in the quarter, or 6% excluding foreign exchange movements. This decrease reflects the impact of lower wholesale and transit revenues (including the impact of mobile termination rate reductions), reduced UK calls and lines revenue and a one-off revenue adjustment of around £20m. We expect the decline in revenue to be slightly higher in the fourth quarter reflecting the effect of mobile termination rate reductions and the anniversary of the one-off benefit relating to a major contract milestone in the fourth quarter of the prior year. Underlying revenue trends are expected to be better in 2011/12.

Total order intake for the quarter was up 8% at £1.7bn. This reflects some significant contract wins and extensions with leading organisations in the global financial services sector. We also signed new contracts in the UK with Gala Coral for broadband and voice services across 1,600 outlets, and outside the UK with customers such as DigitPA (Agency for the Digital Public Administration) in Italy to connect 340 offices in 125 countries and ArcelorMittal to support operations in over 700 sites across more than 40 countries.

Operating results
Net operating costs reduced by 8% during the quarter as a result of further progress with our cost efficiency initiatives, including further supplier negotiations, and the impact of the decline in wholesale call volumes and mobile termination rate reductions. EBITDA for the quarter was £141m, an increase of 15%. Depreciation and amortisation was down by 9%, resulting in a 51% improvement in the operating loss.

Operating cash flow for the quarter was £115m compared with an outflow of £27m last year and largely reflects an improvement in working capital. We have been targeting a more even cash profile over the year and benefited from some significant customer collections in the quarter including some receipts that were expected in the fourth quarter. In the nine months operating cash flow was an inflow of £49m compared with an outflow of £595m last year. We expect to generate positive operating cash flow of around £100m for the full year, a year earlier than previously targeted. We now also expect to generate around £200m of operating cash flow in 2011/12.

BT Retail

	Third quarter to 31 December				Nine months to 31 December	
	2010	2009[1]	Change		**2010**	2009[1]
	£m	£m	£m	%	**£m**	£m
Revenue	**1,967**	2,020	(53)	(3)	**5,821**	6,107
Net operating costs[2]	**1,515**	1,584	(69)	(4)	**4,513**	4,768
EBITDA	**452**	436	16	4	**1,308**	1,339
Depreciation & amortisation	**110**	117	(7)	(6)	**332**	353
Operating profit	**342**	319	23	7	**976**	986
Capital expenditure	**115**	90	25	28	**299**	253
Operating cash flow	**324**	371	(47)	(13)	**950**	1,129

[1] Restated for the impact of customer account moves
[2] Net of other operating income

Revenue
Total revenue decreased by 3%, an improvement on the 4% decline last quarter. Consumer revenue decreased by 4%, compared with a 6% decrease last quarter, reflecting growth in broadband and slowing line losses. Business revenue increased by 1%, the first growth in two years, driven by continuing growth in IT services and mobility and a slowing of the decline in calls revenue.

We had a good quarter in broadband with net additions of 188,000, representing a 53% market share of DSL and LLU net additions, our highest share for eight years. Our high share reflects the success of our broadband strategy, including BT Infinity and Wi-Fi, as well as our competitive offers and growth in our Plusnet brand. We also saw the take up of BT Vision more than double, with 40,000 net additions in the quarter, the highest for seven quarters.

Consumer ARPU increased to £322, up £5 over the previous quarter, largely due to the increasing penetration of broadband in our customer base.

Operating results
Net operating costs decreased by 4% with savings being partially offset by the planned investments in subscriber acquisition costs, marketing and product development. The decrease in costs was driven by reductions in total labour costs of 6% resulting from productivity and efficiency improvements, coupled with procurement savings. EBITDA increased by 4% and with depreciation and amortisation down by 6%, operating profit increased by 7%.

Capital expenditure increased by 28% principally due to investment in supporting enhancements to our products and services and the fibre roll out in Northern Ireland. Operating cash flow reduced by 13% primarily due to a working capital outflow and increased capital expenditure, partly offset by the increase in EBITDA.

BT Wholesale

	Third quarter to 31 December				Nine months to 31 December	
	2010	2009[1]	Change		**2010**	2009[1]
	£m	£m	£m	%	**£m**	£m
Revenue						
- adjusted[2]	**1,070**	1,075	(5)	-	**3,183**	3,310
- reported	**1,070**	1,126	(56)	(5)	**3,183**	3,463
Net operating costs[3]	**740**	789	(49)	(6)	**2,188**	2,444
EBITDA	**330**	337	(7)	(2)	**995**	1,019
Depreciation & amortisation	**154**	172	(18)	(10)	**463**	513
Operating profit	**176**	165	11	7	**532**	506
Capital expenditure	**91**	71	20	28	**237**	211
Operating cash flow	**141**	224	(83)	(37)	**580**	557

[1] Restated for the impact of customer account moves
[2] Prior year revenue adjusted for changes in the internal trading model
[3] Net of other operating income

Revenue
Adjusted revenue was broadly flat reflecting a reduction in broadband revenue, partly as a result of continued migration to LLU, being offset by growth in managed network services (MNS) revenue. MNS revenue represented 24% of external revenue (Q3 2009/10: 22%).

During the quarter, we signed a new contract with KCOM Group to provide next generation IP Voice Services nationally for resale to their small and medium size enterprise and corporate customers across the UK. This contract supports their move to a unified communications solution and builds on the ten year MNS contract signed with BT Wholesale in 2009.

Operating results
Net operating costs were broadly flat, after reflecting the impact of changes in the internal trading model. EBITDA decreased by 2% and with depreciation and amortisation down by 10%, operating profit increased by 7%.

Capital expenditure increased by 28% reflecting the increased investment in our Ethernet and Wholesale Broadband Connect (ADSL2+) roll out. Operating cash flow decreased by 37% primarily due to the timing of working capital payments and increased capital expenditure.

Openreach

	Third quarter to 31 December				Nine months to 31 December	
	2010	2009	Change		**2010**	2009
	£m	£m	£m	%	**£m**	£m
Revenue						
- adjusted[1]	**1,240**	1,241	(1)	-	**3,675**	3,730
- reported	**1,240**	1,292	(52)	(4)	**3,675**	3,883
Net operating costs[2]	**690**	804	(114)	(14)	**2,082**	2,413
EBITDA	**550**	488	62	13	**1,593**	1,470
Depreciation & amortisation	**221**	215	6	3	**650**	639
Operating profit	**329**	273	56	21	**943**	831
Capital expenditure	**295**	226	69	31	**793**	629
Operating cash flow	**316**	321	(5)	(2)	**796**	830

[1] Prior year revenue adjusted for changes in the internal trading model
[2] Net of other operating income

Revenue
Adjusted revenue was broadly flat year on year with an increase in volumes for both copper and Ethernet products being offset by the impact of price reductions. External revenue grew 16% due to LLU operators' growth in end-users and points of presence. However, this has been partially offset by the migration from WLR to lower priced MPF rental revenue. Internal revenue decreased by 6% excluding the impact of the change in the internal trading model.

In the quarter, our overall copper line base increased by 43,000, compared with a loss of 67,000 last year, a significant improvement in trends.

Operating results
Net operating costs reduced by 8%, after reflecting the impact of changes in the internal trading model. Excluding leaver costs, which were lower in the quarter, net operating costs declined by 5%, benefitting from process efficiencies in engineering activities. EBITDA increased by 13% and with depreciation and amortisation up by 3%, operating profit increased by 21%.

Capital expenditure increased by 31% due to the investment in fibre roll out and the increase in communications providers' infrastructure build and provision activities. These volume increases have resulted in increased overtime, which has been partly offset by unit cost savings achieved through efficiencies and lower input costs from suppliers. The fibre roll out has been impacted by the poor weather but the programme is now progressing again at a good pace and we are seeing encouraging take up. Operating cash flow decreased by 2%, as the increase in EBITDA was largely offset by the additional capital expenditure.

FINANCIAL STATEMENTS

Group income statement
For the third quarter to 31 December 2010

	Before specific items £m	Specific items £m	Total £m
Revenue	5,038	-	**5,038**
Other operating income	103	-	**103**
Operating costs	(4,408)	(105)	**(4,513)**
Operating profit	733	(105)	**628**
Finance expense	(234)	(581)	**(815)**
Finance income	27	561	**588**
Net finance expense	(207)	(20)	**(227)**
Share of post tax profits of associates and joint ventures	5	-	**5**
Profit on disposal of associate	-	35	**35**
Profit before tax	531	(90)	**441**
Tax	(113)	19	**(94)**
Profit for the period	418	(71)	**347**
Attributable to:			
Equity shareholders	418	(71)	**347**
Non controlling interests	-	-	**-**
Earnings per share			
- basic	5.4p		**4.5p**
- diluted	5.1p		**4.3p**

Group income statement
For the third quarter to 31 December 2009

	Before specific items £m	Specific items £m	Total £m
Revenue	5,198	-	**5,198**
Other operating income	80	-	**80**
Operating costs	(4,646)	(159)	**(4,805)**
Operating profit	632	(159)	**473**
Finance expense	(229)	(553)	**(782)**
Finance income	6	484	**490**
Net finance expense	(223)	(69)	**(292)**
Share of post tax (losses) profits of associates and joint ventures	(1)	29	**28**
Profit before tax	408	(199)	**209**
Tax	(94)	63	**(31)**
Profit for the period	314	(136)	**178**
Attributable to:			
Equity shareholders	314	(136)	**178**
Non controlling interests	-	-	**-**
Earnings per share			
- basic	4.1p		**2.3p**
- diluted	3.9p		**2.2p**

Group income statement
For the nine months to 31 December 2010

	Before specific items £m	Specific items £m	Total £m
Revenue	15,021	-	**15,021**
Other operating income	272	-	**272**
Operating costs	(13,175)	(227)	**(13,402)**
Operating profit	2,118	(227)	**1,891**
Finance expense	(692)	(1,742)	**(2,434)**
Finance income	33	1,683	**1,716**
Net finance expense	(659)	(59)	**(718)**
Share of post tax profits of associates and joint ventures	14	-	**14**
Profit on disposal of associate	-	35	**35**
Profit before tax	1,473	(251)	**1,222**
Tax	(320)	129	**(191)**
Profit for the period	1,153	(122)	**1,031**
Attributable to:			
Equity shareholders	1,152	(122)	**1,030**
Non controlling interests	1	-	**1**
Earnings per share			
- basic	14.9p		**13.3p**
- diluted	14.2p		**12.7p**

Group income statement
For the nine months to 31 December 2009

	Before specific items £m	Specific items £m	Total £m
Revenue	15,555	(52)	**15,503**
Other operating income	252	-	**252**
Operating costs	(13,931)	(254)	**(14,185)**
Operating profit	1,876	(306)	**1,570**
Finance expense	(670)	(1,657)	**(2,327)**
Finance income	8	1,460	**1,468**
Net finance expense	(662)	(197)	**(859)**
Share of post tax profits of associates and joint ventures	16	29	**45**
Profit before tax	1,230	(474)	**756**
Tax	(285)	349	**64**
Profit for the period	945	(125)	**820**
Attributable to:			
Equity shareholders	944	(125)	**819**
Non controlling interests	1	-	**1**
Earnings per share			
- basic	12.2p		**10.6p**
- diluted	11.8p		**10.3p**

Group cash flow statement

For the third quarter and nine months to 31 December

	Third quarter to 31 December		Nine months to 31 December	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Profit before tax	**441**	209	**1,222**	756
Depreciation and amortisation	**751**	754	**2,217**	2,251
Net finance expense	**227**	292	**718**	859
Associates and joint ventures	**(5)**	(28)	**(14)**	(45)
Profit on disposal of associate	**(35)**	-	**(35)**	-
Share based payments	**17**	18	**50**	54
Decrease (increase) in working capital	**56**	45	**(204)**	(654)
Provisions, pensions and other non cash movements[1]	**(432)**	(606)	**(286)**	(697)
Cash generated from operations	**1,020**	684	**3,668**	2,524
Tax (paid) received	**(94)**	(44)	**(109)**	367
Net cash inflow from operating activities	**926**	640	**3,559**	2,891
Cash flow from investing activities				
Interest received	**22**	2	**27**	15
Dividends received from associates and joint ventures	**1**	2	**5**	3
Proceeds on disposal of property, plant and equipment	**1**	9	**10**	27
Acquisition of subsidiaries, net of cash acquired	**(6)**	-	**(8)**	(13)
Disposal of associates and joint ventures	**67**	-	**67**	-
Purchases of property, plant and equipment and computer software	**(671)**	(557)	**(1,892)**	(1,808)
Purchases of non current financial assets	**-**	-	**(17)**	-
Purchases of current financial assets	**(2,224)**	(2,077)	**(7,147)**	(6,740)
Sale of current financial assets	**3,711**	2,263	**6,597**	6,165
Net cash received (used) in investing activities	**901**	(358)	**(2,358)**	(2,351)
Cash flow from financing activities				
Interest paid	**(289)**	(316)	**(752)**	(765)
Equity dividends paid	**(3)**	(1)	**(357)**	(87)
Repayment of borrowings	**(1,742)**	(17)	**(1,748)**	(307)
Repayment of finance lease liabilities	**(7)**	(14)	**(11)**	(14)
Receipt of bank loans and bonds	**340**	-	**340**	522
Cash flows from derivatives related to net debt	**(135)**	-	**123**	-
Net (repayment) proceeds on commercial paper	**-**	(6)	**16**	(697)
Proceeds on issue of treasury shares	**-**	-	**2**	1
Net cash used in financing activities	**(1,836)**	(354)	**(2,387)**	(1,347)
Effects of exchange rate changes	**2**	(4)	**(2)**	(16)
Net decrease in cash and cash equivalents	**(7)**	(76)	**(1,188)**	(823)
Cash and cash equivalents, net of bank overdrafts, at beginning of period	**263**	368	**1,444**	1,115
Cash and cash equivalents, net of bank overdrafts, at end of period	**256**	292	**256**	292

[1] Includes pension deficit payment of £525m in Q3 2010/11 (Q3 2009/10: £525m)

Group balance sheet

	31 December 2010 £m	31 December 2009 £m	31 March 2010 £m
Non current assets			
Intangible assets	**3,465**	3,585	3,672
Property, plant and equipment	**14,523**	14,795	14,856
Derivative financial instruments	**713**	1,153	1,076
Investments	**59**	57	64
Associates and joint ventures	**169**	177	195
Trade and other receivables	**332**	412	336
Deferred tax assets	**1,003**	2,463	2,196
	20,264	22,642	22,395
Current assets			
Inventories	**133**	117	107
Trade and other receivables	**3,523**	3,840	3,696
Derivative financial instruments	**263**	233	624
Investments	**929**	729	406
Cash and cash equivalents	**266**	305	1,452
	5,114	5,224	6,285
Current liabilities			
Loans and other borrowings	**1,387**	2,114	3,269
Derivative financial instruments	**21**	136	166
Trade and other payables	**6,046**	6,190	6,531
Current tax liabilities	**470**	274	320
Provisions	**129**	158	134
	8,053	8,872	10,420
Total assets less current liabilities	**17,325**	18,994	18,260
Non current liabilities			
Loans and other borrowings	**9,350**	10,332	9,522
Derivative financial instruments	**600**	531	533
Retirement benefit obligations	**3,742**	8,833	7,864
Other payables	**809**	834	804
Deferred tax liabilities	**1,430**	1,605	1,456
Provisions	**841**	453	707
	16,772	22,588	20,886
Equity			
Ordinary shares	**408**	408	408
Reserves (deficit)	**121**	(4,025)	(3,058)
Total parent shareholders' equity (deficit)	**529**	(3,617)	(2,650)
Non controlling interests	**24**	23	24
Total equity (deficit)	**553**	(3,594)	(2,626)
	17,325	18,994	18,260

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 2010 and 2009 together with the audited balance sheet at 31 March 2010.

Except as described below, the financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2010 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 by the independent auditors. Statutory accounts for the year to 31 March 2010 were approved by the Board of Directors on 12 May 2010, published on 26 May 2010 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. The financial statements should be read in conjunction with the annual financial statements for the year to 31 March 2010.

The financial statements for the year to 31 March 2010 refer to new standards and interpretations which have been adopted with effect from 1 April 2010. None of these standards or interpretations has had a significant impact on these financial statements.

Customer account moves
The 2009/10 line of business comparatives have been restated as a result of customer account moves between BT Retail and BT Wholesale effective from 1 April 2010, which have no impact on total group results. The impact on prior period line of business results for the quarters and year to 31 March 2010 was disclosed in Note 2 to the financial statements for the first quarter to 30 June 2010.

Pension interest
Effective from 1 April 2010, net interest on pensions is included within specific items because of its volatile nature. Comparative figures have been restated accordingly.

Presentation of leaver costs
As stated in BT Group plc 2009/10 final results announcement, effective from 1 April 2010 group and line of business adjusted results are reported after leaver costs. The impact on prior period group and line of business adjusted EBITDA for the quarters and year to 31 March 2010 was disclosed in Note 2 to the financial statements for the first quarter to 30 June 2010.

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: full year and future outlook; BT Global Services' full year and future cash flow and future revenue trends; the success of our broadband strategy; the improvement in line loss reductions; and our fibre roll out programme.

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

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services not being realised; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the BT Global Services restructuring programme not being achieved; the outcome of the Pensions Regulator's review; 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.