3 February 2012

BT GROUP PLC

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2011

BT Group plc (BT.L) today announces its results for the third quarter and nine months to 31 December 2011.

Third quarter and nine month results:

		Third quarter to 31 December 2011		Nine months to 31 December 2011	
		£m	Change	**£m**	Change
Revenue[1]		**4,774**	(5)%	**14,432**	(4)%
Underlying revenue excluding transit			(3.0)%		(1.8)%
EBITDA[1]		**1,524**	3%	**4,455**	3%
Profit before tax	- adjusted[1]	**628**	18%	**1,731**	18%
	- reported	**652**	48%	**1,721**	41%
Earnings per share	- adjusted[1]	**6.1p**	13%	**16.9p**	13%
	- reported	**6.3p**	40%	**17.7p**	33%
Free cash flow[2]		**634**	£65m	**1,613**	£9m
Net debt				**7,736**	£(938)m

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

"We have delivered another quarter of growth in profits and cash flow despite the economic headwinds.

"Our investment to support our customers and improve our services has resulted in new contract wins around the world, with orders so far this year up over 50% in Asia Pacific and Latin America. In the UK, our fibre roll-out has accelerated bringing super-fast broadband within reach of over 7m homes and businesses and we remain the number one broadband retailer with over 6m customers. Our fixed-line base has now grown for the last five quarters and our active consumer line loss is at its lowest for five years.

"We expect to achieve our 2013 EBITDA[1] target of above £6bn a year early and to deliver free cash flow[2] of around £2.4bn this year."

[1] Before specific items
[2] Before specific items and pension deficit payments
Unless otherwise stated, the changes in results are year on year against the third quarter and nine months to 31 December 2010.

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2011

Group results

	Third quarter to 31 December			Nine months to 31 December		
	2011	2010	Change	**2011**	2010	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- adjusted[1]	**4,774**	5,038	(5)	**14,432**	15,021	(4)
- reported (see Note below)	**4,774**	5,038	(5)	**14,022**	15,021	(7)
- underlying excluding transit[2]			(3.0)			(1.8)
EBITDA						
- adjusted[1]	**1,524**	1,484	3	**4,455**	4,335	3
- reported	**1,498**	1,379	9	**4,296**	4,108	5
Operating profit						
- adjusted[1]	**790**	733	8	**2,229**	2,118	5
- reported	**764**	628	22	**2,070**	1,891	9
Profit before tax						
- adjusted[1]	**628**	531	18	**1,731**	1,473	18
- reported	**652**	441	48	**1,721**	1,222	41
Earnings per share						
- adjusted[1]	**6.1p**	5.4p	13	**16.9p**	14.9p	13
- reported	**6.3p**	4.5p	40	**17.7p**	13.3p	33
Capital expenditure	**665**	680	(2)	**1,899**	1,811	5
Free cash flow[3]						
- adjusted[1]	**634**	569	11	**1,613**	1,604	1
- reported	**586**	515	14	**1,462**	1,465	0
Net debt				**7,736**	8,674	(11)

Note: Reported revenue for the nine months to 31 December 2011 includes a specific charge of £410m recognised in Q2 2012 relating to a retrospective regulatory ruling in Germany, which had no impact on profits or cash.

Line of business results[1]

	Revenue			EBITDA			Operating cash flow		
Third quarter to	**2011**	2010[4]	Change	**2011**	2010[4]	Change	**2011**	2010[4]	Change
31 December	**£m**	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**1,894**	1,978	(4)	**144**	141	2	**134**	115	17
BT Retail	**1,849**	1,954	(5)	**453**	452	0	**284**	324	(12)
BT Wholesale	**979**	1,069	(8)	**303**	330	(8)	**145**	141	3
Openreach	**1,300**	1,240	5	**591**	550	7	**304**	316	(4)
Other and intra-group items	**(1,248)**	(1,203)	(4)	**33**	11	n/m	**(233)**	(327)	29
Total	**4,774**	5,038	(5)	**1,524**	1,484	3	**634**	569	11

[1] Before specific items. Specific items are defined below
[2] Underlying revenue excluding transit is defined below
[3] Before pension deficit payment of £525m in Q3 2011
[4] Restated for the impact of customer account moves. See Note 1 to the condensed consolidated financial statements
n/m = not meaningful

Notes:

1) Unless otherwise stated, any reference to revenue, 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 on an adjusted basis being 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 revenue, reported EBITDA, reported operating profit, reported profit before tax and reported EPS are the equivalent unadjusted or statutory measures.

2) Underlying revenue is a measure which seeks to reflect the underlying revenue performance of the group that will contribute to long-term profitable growth. As such it excludes any increases or decreases in revenue as a result of acquisitions or disposals, any foreign exchange movements affecting revenue and any specific items. We are focusing on the trends in underlying revenue excluding transit revenue as transit traffic is low-margin and is significantly affected by reductions in mobile termination rates which have no impact on the group's profitability. Underlying costs is a measure which seeks to reflect the underlying costs of the group as a result of operational efficiency improvements. As such it excludes any decreases or increases in costs as a result of acquisitions or disposals, any foreign exchange movements affecting costs and any specific items.

3) Unless otherwise stated, the references 2011 and 2012 are the financial years to 31 March 2011 and 2012, respectively, except in relation to our fibre roll-out plans which are based on calendar years.

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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

The fourth quarter and full year results for 2012 are expected to be announced on 10 May 2012.

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 four lines of business: BT Global Services, BT Retail, BT Wholesale and Openreach.

In the year to 31 March 2011, BT Group's revenue was £20,076m with profit before taxation of £1,717m.

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 2011

GROUP RESULTS

Operating results overview

Revenue was down 5% at £4,774m, with transit revenue down by £109m (including mobile termination rate reductions of £79m) and after a £15m negative impact from disposals.

Underlying revenue excluding transit reduced by 3% in the quarter. This was a weaker performance than in the previous quarter mainly due to the impact of around £60m of contract milestones in BT Global Services which were achieved in the second quarter rather than this quarter. For the nine months to 31 December 2011 underlying revenue excluding transit reduced by 1.8%, consistent with our outlook for the full year.

Total operating costs before depreciation and amortisation and specific items were £3,343m, down £314m or 9% in the quarter and down £691m or 6% in the nine months. Underlying operating costs were also down 6% in the nine months.

Total labour costs of £1,432m, including leaver costs of £11m (Q3 2011: £12m), decreased by 3% after adjusting for certain labour related costs of £22m classified as other costs in the prior year. Payments to telecommunications operators were down 15% reflecting lower mobile termination rates and lower transit and wholesale call volumes. We saw further reductions across all our other cost categories due to further efficiency improvements.

The reduction in our cost base resulted in adjusted EBITDA increasing by 3% to £1,524m.

Depreciation and amortisation decreased by 2% to £734m. Capital expenditure decreased by 2% to £665m and is still expected to be around £2.6bn for the full year.

Broadband/fibre

We added 146,000 retail broadband customers, representing 56% of the broadband market net additions[1] of 262,000 taking our retail broadband customer base to 6.1m at 31 December 2011. Take up of our super-fast broadband product, BT Infinity, increased with 95,000 customers added in the quarter and we now have more than 400,000 customers.

Net finance expense

Adjusted net finance expense was £166m, a reduction of £41m, primarily due to lower net debt and the repayment of higher coupon debt in the second half of last year.

Profit before tax

Adjusted profit before tax was £628m, up 18%, reflecting the improved operating results and lower finance expense. Reported profit before tax (which includes specific items) was £652m, up 48%.

Tax

The effective tax rate on profit before specific items was 24.1% for the quarter (Q3 2011: 21.3%). This compares with the UK statutory rate of 26% (2011: 28%).

Specific items

Specific items were a net credit of £24m before tax (Q3 2011: £90m net charge) and a net credit of £15m after tax (Q3 2011: £71m net charge).

Specific operating costs include property rationalisation charges of £18m (Q3 2011: £26m) and BT Global Services restructuring charges of £8m (Q3 2011: £40m). These were more than offset by the net interest income on pensions of £50m (Q3 2011: £20m expense).

Earnings per share

Adjusted EPS was 6.1p, up 13%, due to the higher operating profit and lower finance expense. Reported EPS (which includes specific items) was 6.3p, up 40%.

[1] DSL, LLU and fibre, excluding cable

Free cash flow
Adjusted free cash flow was an inflow of £634m (Q3 2011: £569m), up £65m, principally reflecting lower capital expenditure and lower regular pension contributions in the quarter. The cash cost of specific items was £48m (Q3 2011: £54m) comprising BT Global Services restructuring charges of £27m and property rationalisation costs of £21m, resulting in reported free cash flow of £586m (Q3 2011: £515m).

Net debt and liquidity
Net debt was £7,736m at 31 December 2011, a reduction of £1,080m compared with 31 March 2011. At 31 December 2011 the group had cash and current investment balances of £1.6bn and available facilities of £1.5bn. Over the last three years net debt has been reduced by £3.3bn.

Pensions
The IAS 19 net pension position at 31 December 2011 was a deficit of £4.1bn net of tax (£5.4bn gross of tax), compared with a deficit of £2.5bn at 30 September 2011 and a deficit of £1.4bn at 31 March 2011.

The deficit includes the impact of particularly low real corporate bond yields partly reflecting the impact of quantitative easing and recent inflation being higher than the long-term assumptions. This higher inflation will be applied to the annual pension increase in April and has contributed to the increased liabilities.

The market value of the BT Pension Scheme (BTPS) assets has decreased by £1.2bn since 31 March 2011 to £35.8bn at 31 December 2011.

The IAS 19 value of the BTPS liabilities was £41.1bn (31 March 2011: £38.7bn). The liability valuation is based on the AA corporate bond rate of 4.70% (31 March 2011: 5.50%) and future inflation expectations. Long-term RPI inflation is expected to be 2.85% (31 March 2011: 3.40%) and long-term CPI inflation is assumed to be 1.15% below RPI (31 March 2011: 1.50% below RPI for one year and 1.00% below RPI thereafter) which is more prudent than the current Office for Budget Responsibility forecast of 1.30% to 1.50%.

Outlook
We expect to achieve our 2013 adjusted EBITDA target of above £6bn a year early and to deliver adjusted free cash flow of around £2.4bn this year.

OPERATING REVIEW

BT Global Services

	Third quarter to 31 December				Nine months to 31 December			
	2011	2010[1]	Change		**2011**	2010[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,894**	1,978	(84)	(4)	**5,813**	5,981	(168)	(3)
- underlying excluding transit				(1)				0
Net operating costs[2]	**1,750**	1,837	(87)	(5)	**5,372**	5,572	(200)	(4)
EBITDA	**144**	141	3	2	**441**	409	32	8
Depreciation & amortisation	**169**	176	(7)	(4)	**534**	539	(5)	(1)
Operating loss	**(25)**	(35)	10	29	**(93)**	(130)	37	28
Capital expenditure	**139**	128	11	9	**411**	355	56	16
Operating cash flow	**134**	115	19	17	**19**	49	(30)	(61)

[1] Restated for the impact of customer account moves, see Note 1 to the condensed consolidated financial statements
[2] Net of other operating income

Revenue
Revenue decreased by 4%. As expected, this was a weaker performance than in the previous quarter mainly due to the impact of around £60m of contract milestones which were achieved in the second quarter rather than this quarter. Revenue for the nine months decreased by 3%. Excluding transit revenue which declined by £45m, a £15m negative impact from disposals and a £3m negative impact from foreign exchange movements, underlying revenue excluding transit decreased by 1% in the quarter and was flat in the nine months.

Total order intake in the quarter was £1.6bn. In the quarter we signed contracts with Sainsbury's and Standard Life in the UK, and with leading companies across the world including Staples, Eni Group, Bristol-Myers Squibb and Deutsche Post DHL. We also signed two major contracts with the European Parliament. We are seeing the benefits from our investments in Asia Pacific and Latin America where the combined order intake so far this year was up over 50%.

Operating results
Net operating costs were down 5%, or down 2% excluding transit costs, foreign exchange movements and disposals. EBITDA was £144m, up 2%, and up 8% in the nine months. Leaver costs were £4m. Depreciation and amortisation reduced by 4% as a result of lower overall capital expenditure over the last two financial years. This contributed to a 29% improvement in the operating loss.

Capital expenditure increased by 9% principally due to the delivery of new contracts in EMEA and Latin America. Operating cash flow improved by £19m. Our cash flow profile is still weighted to the second half of the year and we continue to expect to generate around £200m of operating cash flow for the full year.

BT Retail

	Third quarter to 31 December				Nine months to 31 December			
	2011	2010[1]	Change		**2011**	2010[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,849**	1,954	(105)	(5)	**5,532**	5,784	(252)	(4)
Net operating costs[2]	**1,396**	1,502	(106)	(7)	**4,188**	4,476	(288)	(6)
EBITDA	**453**	452	1	0	**1,344**	1,308	36	3
Depreciation & amortisation	**101**	110	(9)	(8)	**305**	332	(27)	(8)
Operating profit	**352**	342	10	3	**1,039**	976	63	6
Capital expenditure	**108**	115	(7)	(6)	**311**	299	12	4
Operating cash flow	**284**	324	(40)	(12)	**922**	950	(28)	(3)

[1] Restated for the impact of customer account moves, see Note 1 to the condensed consolidated financial statements
[2] Net of other operating income

Revenue
Revenue decreased by 5% reflecting the ongoing decline in calls and lines revenue and lower IT hardware sales.

Consumer revenue decreased by 6% due to lower calls and lines revenue, and lower call volumes in part reflecting the warmer weather compared with the same quarter last year.

The operating metrics for Consumer were encouraging. In addition to our 56% share of broadband market net additions[1], active consumer line loss was at its lowest for five years. The uptake of BT Vision has maintained good momentum with net additions of 39,000 in the quarter. Consumer ARPU was up 5% to £337 reflecting the increased take up of broadband and BT Vision.

Business revenue decreased by 6% almost all of which was due to lower IT hardware sales reflecting tougher market conditions and an increased focus on higher margin products and services.

Operating results
Net operating costs decreased by 7% primarily as a result of our cost transformation initiatives, lower IT hardware sales and reductions in fixed to mobile termination rates. EBITDA was broadly flat as cost and revenue reductions offset each other. Depreciation and amortisation reduced by 8% and operating profit increased by 3%.

Capital expenditure decreased by 6% with continued investment in broadband being more than offset by efficiencies. Operating cash flow decreased by 12% primarily due to the timing of working capital outflows.

[1] DSL, LLU and fibre, excluding cable

BT Wholesale

	Third quarter to 31 December				Nine months to 31 December			
	2011	2010[1]	Change		**2011**	2010[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**979**	1,069	(90)	(8)	**2,965**	3,177	(212)	(7)
- underlying excluding transit				(3)				(1)
Net operating costs[2]	**676**	739	(63)	(9)	**2,050**	2,182	(132)	(6)
EBITDA	**303**	330	(27)	(8)	**915**	995	(80)	(8)
Depreciation & amortisation	**149**	154	(5)	(3)	**450**	463	(13)	(3)
Operating profit	**154**	176	(22)	(13)	**465**	532	(67)	(13)
Capital expenditure	**82**	91	(9)	(10)	**245**	237	8	3
Operating cash flow	**145**	141	4	3	**486**	580	(94)	(16)

[1] Restated for the impact of customer account moves, see Note 1 to the condensed consolidated financial statements
[2] Net of other operating income

Revenue

Revenue declined by 8% mainly due to a £64m reduction in transit revenue principally driven by mobile termination rate reductions. Underlying revenue excluding transit was down 3% reflecting the ongoing migration of broadband lines to LLU and the transition towards IP-based products.

Total order intake in the quarter was around £340m. This included the extension of our managed network services (MNS) voice contract with Virgin Media for a further three years. We also renewed our outside broadcasting contract with Sky Sports for the next six years.

Our Mobile Ethernet Access Service is now available at more than 12,000 mobile sites, an increase of over 1,000 in the quarter, reinforcing our market leading position. IP Exchange, which simplifies VOIP interconnect, now has over 200 customers and is growing rapidly, with voice minutes increasing by over 50%.

Operating results

Net operating costs reduced by 9%, or were flat excluding transit costs, as the benefit of lower total labour costs was offset by the impact of changes in our product mix and network migration costs on some of our contracts. As a result, EBITDA declined by 8%. Depreciation and amortisation reduced by 3% and operating profit declined by 13%.

Capital expenditure decreased by 10% principally due to better utilisation of our assets and lower requirements on MNS contracts, partly offset by increased investment in our Wholesale Broadband Connect roll-out. Operating cash flow was 3% higher as the decline in EBITDA was more than offset by improved customer collections.

Openreach

	Third quarter to 31 December				Nine months to 31 December			
	2011	2010[1]	Change		**2011**	2010[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,300**	1,240	60	5	**3,835**	3,675	160	4
Net operating costs[2]	**709**	690	19	3	**2,139**	2,082	57	3
EBITDA	**591**	550	41	7	**1,696**	1,593	103	6
Depreciation & amortisation	**236**	221	15	7	**700**	650	50	8
Operating profit	**355**	329	26	8	**996**	943	53	6
Capital expenditure	**292**	295	(3)	(1)	**796**	793	3	0
Operating cash flow	**304**	316	(12)	(4)	**831**	796	35	4

[1] Restated for the impact of customer account moves, see Note 1 to the condensed consolidated financial statements
[2] Net of other operating income

Revenue
Revenue was up 5% driven by growth in Ethernet, LLU and fibre-based broadband.

Our overall copper line base increased by 34,000, the fifth successive quarter of growth, and has increased by 88,000 over the past 12 months.

Operating results
Net operating costs increased by 3% as efficiency improvements were offset by higher total labour costs driven by additional engineering activity. EBITDA increased by 7%. Depreciation and amortisation increased by 7% reflecting the investment in our fibre roll-out and Ethernet over the last 12 months. Operating profit increased by 8%.

The accelerated investment in our fibre roll-out programme was offset by lower spend on DSL, resulting in capital expenditure reducing by 1%. We recently announced 178 new exchange locations across the UK for the next two phases of our fibre roll-out programme. More than 7m premises now have access to fibre-based broadband and we expect to roughly double the download speeds provided by fibre-to-the-cabinet (FTTC) broadband from up to 40Mbps to up to 80Mbps in the Spring. We are rolling out our fibre-to-the-premises (FTTP) service offering speeds of 110Mbps and are on track to launch our 330Mbps product in the Spring. We are also testing a 1Gbps FTTP speed variant. In addition, we have successfully tested, and are trialling, a new technological development that enables FTTP to be provided in FTTC-enabled areas in response to customer demand.

Operating cash flow was down 4% primarily due to the timing of debtor receipts offsetting the increase in EBITDA.

FINANCIAL STATEMENTS

Group income statement
For the third quarter to 31 December 2011

	Before specific items £m	Specific items £m	Total £m
Revenue	4,774	-	**4,774**
Other operating income	93	-	**93**
Operating costs	(4,077)	(26)	**(4,103)**
Operating profit	790	(26)	**764**
Finance expense	(169)	(522)	**(691)**
Finance income	3	572	**575**
Net finance expense	(166)	50	**(116)**
Share of post tax profits of associates and joint ventures	4	-	**4**
Profit before tax	628	24	**652**
Tax	(151)	(9)	**(160)**
Profit for the period	477	15	**492**
Attributable to:			
Equity shareholders	476	15	**491**
Non-controlling interests	1	-	**1**
Earnings per share			
- basic	6.1p		**6.3p**
- diluted	5.8p		**6.0p**

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 nine months to 31 December 2011

	Before specific items £m	Specific items £m	Total £m
Revenue	14,432	(410)	**14,022**
Other operating income	290	(19)	**271**
Operating costs	(12,493)	270	**(12,223)**
Operating profit	2,229	(159)	**2,070**
Finance expense	(515)	(1,568)	**(2,083)**
Finance income	7	1,717	**1,724**
Net finance expense	(508)	149	**(359)**
Share of post tax profits of associates and joint ventures	10	-	**10**
Profit before tax	1,731	(10)	**1,721**
Tax	(418)	69	**(349)**
Profit for the period	1,313	59	**1,372**
Attributable to:			
Equity shareholders	1,311	59	**1,370**
Non-controlling interests	2	-	**2**
Earnings per share			
- basic	16.9p		**17.7p**
- diluted	16.0p		**16.7p**

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 cash flow statement
For the third quarter and nine months to 31 December

	Third quarter to 31 December		Nine months to 31 December	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Profit before tax	**652**	441	**1,721**	1,222
Depreciation and amortisation	**734**	751	**2,226**	2,217
Net finance expense	**116**	227	**359**	718
Loss on disposal of subsidiary	**-**	-	**19**	-
Associates and joint ventures	**(4)**	(5)	**(10)**	(14)
Profit on disposal of associate	**-**	(35)	**-**	(35)
Share-based payments	**18**	17	**58**	50
Decrease (increase) in working capital	**88**	56	**(374)**	(204)
Provisions, pensions and other non-cash movements	**(17)**	(432)[1]	**106**	(286)[1]
Cash generated from operations	**1,587**	1,020	**4,105**	3,668
Tax paid	**(163)**	(94)	**(228)**	(109)
Net cash inflow from operating activities	**1,424**	926	**3,877**	3,559
Cash flow from investing activities				
Interest received	**1**	22	**3**	27
Dividends received from associates and joint ventures	**-**	1	**4**	5
Proceeds on disposal of property, plant and equipment	**3**	1	**13**	10
Acquisition of subsidiaries, net of cash acquired	**-**	(6)	**(5)**	(8)
Sale of subsidiaries, net of bank overdrafts	**-**	-	**13**	-
Disposal of associates and joint ventures	**-**	67	**7**	67
Purchases of property, plant and equipment and computer software	**(642)**	(671)	**(1,888)**	(1,892)
Purchase of non-current asset investments	**-**	-	**-**	(17)
Sale of non-current asset investments	**1**	-	**1**	-
Purchase of current financial assets	**(2,609)**	(2,224)	**(6,327)**	(7,147)
Sale of current financial assets	**1,948**	3,711	**4,984**	6,597
Net cash (used) received in investing activities	**(1,298)**	901	**(3,195)**	(2,358)
Cash flow from financing activities				
Interest paid	**(201)**	(289)	**(548)**	(752)
Equity dividends paid	**(3)**	(3)	**(388)**	(357)
Repayment of borrowings	**(8)**	(1,742)	**(22)**	(1,748)
Repayment of finance lease liabilities	**-**	(7)	**(2)**	(11)
Receipt of bank loans and bonds	**-**	340	**-**	340
Cash flows from derivatives related to net debt	**15**	(135)	**286**	123
Net (repayment) proceeds of commercial paper	**-**	-	**(69)**	16
Proceeds on issue of treasury shares	**3**	-	**11**	2
Net cash used in financing activities	**(194)**	(1,836)	**(732)**	(2,387)
Effect of exchange rate movements	**(1)**	2	**-**	(2)
Net decrease in cash and cash equivalents	**(69)**	(7)	**(50)**	(1,188)
Cash and cash equivalents, net of bank overdrafts, at beginning of period	**344**	263	**325**	1,444
Cash and cash equivalents, net of bank overdrafts, at end of period	**275**	256	**275**	256

[1]Includes pension deficit payment of £525m in Q3 2011.

Group balance sheet

	31 December 2011 £m	31 December 2010 £m	31 March 2011 £m
Non-current assets			
Intangible assets	**3,189**	3,465	3,389
Property, plant and equipment	**14,426**	14,523	14,623
Derivative financial instruments	**1,112**	713	625
Investments	**63**	59	61
Associates and joint ventures	**151**	169	164
Trade and other receivables	**220**	332	286
Deferred tax assets	**1,382**	1,003	461
	20,543	20,264	19,609
Current assets			
Inventories	**116**	133	121
Trade and other receivables	**3,655**	3,523	3,332
Derivative financial instruments	**77**	263	108
Investments	**1,342**	929	19
Cash and cash equivalents	**283**	266	351
	5,473	5,114	3,931
Current liabilities			
Loans and other borrowings	**912**	1,387	485
Derivative financial instruments	**46**	21	62
Trade and other payables	**5,997**	6,046	6,114
Current tax liabilities	**423**	470	221
Provisions	**86**	129	149
	7,464	8,053	7,031
Total assets less current liabilities	**18,552**	17,325	16,509
Non-current liabilities			
Loans and other borrowings	**9,075**	9,350	9,371
Derivative financial instruments	**819**	600	507
Retirement benefit obligations	**5,435**	3,742	1,830
Other payables	**881**	809	831
Deferred tax liabilities	**1,167**	1,430	1,212
Provisions	**852**	841	807
	18,229	16,772	14,558
Equity			
Ordinary shares	**408**	408	408
Reserves	**(95)**	121	1,517
Total parent shareholders' equity	**313**	529	1,925
Non-controlling interests	**10**	24	26
Total equity	**323**	553	1,951
	18,552	17,325	16,509

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 2011 and 31 December 2010 together with the audited balance sheet at 31 March 2011.

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 2011 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 2011 were approved by the Board of Directors on 11 May 2011, published on 27 May 2011 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 2011.

The financial statements for the year to 31 March 2011 refer to new standards and interpretations which have been adopted with effect from 1 April 2011. None of these standards or interpretations has had a significant impact on these financial statements.

Customer account moves
The 2011 line of business comparatives have been restated as a result of customer account moves between BT Retail, BT Wholesale, BT Global Services and Openreach effective from 1 April 2011, which has no impact on the total group results.

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: outlook, including revenue, EBITDA, free cash flow and capital expenditure; BT Global Services operating cash flow; our fibre roll-out programme reach, increased fibre-to-the-cabinet and fibre-to-the-premises speeds and speed availability.

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 BT's markets; future regulatory actions and conditions in BT's operating areas, including competition from others; BT's selection of the appropriate trading and marketing models for its products and services; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; the anticipated benefits and advantages of new technologies, products and services not being realised; developments in the convergence of technologies; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; the timing of entry and profitability of BT in certain markets; significant changes in market shares for BT; fluctuations in foreign currency exchange rates and interest rates; 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 global 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.