31 January 2014

BT GROUP PLC

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2013

BT Group plc (BT.L) today announced its results for the third quarter and nine months to 31 December 2013.

		Third quarter to 31 December 2013		Nine months to 31 December 2013	
		£m	Change[1]	**£m**	Change[1]
Revenue[2]		**4,599**	2%	**13,539**	0%
Underlying revenue excluding transit			2.4%		0.3%
EBITDA[2]		**1,537**	0%	**4,411**	(2)%
Profit before tax	- adjusted[2]	**722**	8%	**1,926**	5%
	- reported	**617**	6%	**1,565**	(7)%
Earnings per share	- adjusted[2]	**7.3p**	12%	**19.1p**	6%
	- reported	**6.3p**	11%	**18.5p**	4%
Normalised free cash flow[3]		**554**	£(253)m	**1,104**	£105m
Net debt				**7,640**	£(500)m

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

"This is an encouraging set of results, with profit before tax up 8%, earnings per share up 12% and growth in revenue.

"Our strategic investments are delivering. It was another record quarter for fibre take-up and there are now more than 18 million premises with access to our fibre. That number will grow further as the BDUK programme progresses.

"Fibre helps SMEs to compete and underpins our TV plans. Our direct BT Sport customer base passed 2.5 million in the quarter and helped to support 6% revenue growth in our Consumer business. We achieved some particularly strong audience figures in December and the exclusive rights to the UEFA Champions League and UEFA Europa League that we have won will further strengthen the appeal of our proposition.

"Outside the UK our businesses in the high-growth regions of the world again delivered double-digit revenue growth.

"The momentum on our cost transformation has enabled us to raise our EBITDA outlook for the year. It is important that we keep up the progress we are making across the group whilst continuing to focus on improving the service we provide to our customers."

Financial highlights for the third quarter:

- Underlying revenue excluding transit up 2.4% compared with a decline of 3.2% in the prior year
- EBITDA[2] flat at £1,537m, with cost transformation offsetting the investment in BT Sport
- Earnings per share[2] up 12%
- 2013/14 EBITDA[2] now expected to be at the upper end of the £6.0bn–£6.1bn range

[1] Restated, see Note 1 to the condensed consolidated financial statements
[2] Before specific items
[3] Before specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments

GROUP RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2013

	Third quarter to 31 December			Nine months to 31 December		
	2013	2012[1]	Change	**2013**	2012[1]	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- adjusted[2]	**4,599**	4,527	2	**13,539**	13,524	0
- reported (See Note below)	**4,599**	4,376	5	**13,539**	13,288	2
- underlying excluding transit			2.4			0.3
EBITDA						
- adjusted[2]	**1,537**	1,539	0	**4,411**	4,479	(2)
- reported (See Note below)	**1,491**	1,475	1	**4,229**	4,278	(1)
Operating profit						
- adjusted[2]	**867**	833	4	**2,367**	2,328	2
- reported	**821**	769	7	**2,185**	2,127	3
Profit before tax						
- adjusted[2]	**722**	666	8	**1,926**	1,832	5
- reported	**617**	583	6	**1,565**	1,676	(7)
Earnings per share						
- adjusted[2]	**7.3p**	6.5p	12	**19.1p**	18.1p	6
- reported	**6.3p**	5.7p	11	**18.5p**	17.8p	4
Capital expenditure	**581**	572	2	**1,772**	1,790	(1)
Normalised free cash flow[3]	**554**	807	(31)	**1,104**	999	11
Net debt				**7,640**	8,140	(6)

Note: In the third quarter and nine months to 31 December 2012, reported revenue and EBITDA included a specific item charge of £151m and £36m, respectively, relating to Ofcom's determinations on historic Ethernet pricing.

Line of business results[2]

	Revenue			EBITDA			Free cash flow[3]		
Third quarter to 31 December	**2013**	2012[1]	Change	**2013**	2012[1]	Change	**2013**	2012[1]	Change
	£m	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**1,794**	1,748	3	**263**	215	22	**78**	140	(44)
BT Retail	**1,875**	1,810	4	**460**	500	(8)	**352**	471	(25)
BT Wholesale	**589**	645	(9)	**146**	153	(5)	**30**	115	(74)
Openreach	**1,274**	1,286	(1)	**660**	662	0	**452**	448	1
Other and intra-group items	**(933)**	(962)	3	**8**	9	(11)	**(358)**	(367)	2
Total	**4,599**	4,527	2	**1,537**	1,539	0	**554**	807	(31)

[1] Restated, see Note 1 to the condensed consolidated financial statements
[2] Before specific items which are defined below
[3] Before specific items, purchases of telecommunication licences, pension deficit payments and the cash tax benefit of pension deficit payments

Notes:

a) The commentary focuses on the trading results on an adjusted basis 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 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 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.

b) Underlying revenue, underlying costs and underlying EBITDA are 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 excluding transit revenue 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.btplc.com/results

The fourth quarter and full year results for 2013/14 are expected to be announced on Thursday 8 May 2014.

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. BT Retail is in the process of dividing into two separate lines of business, BT Consumer and BT Business.

In the year ended 31 March 2013, BT Group's reported revenue was £18,103m[1] with reported profit before taxation of £2,315m[1].

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

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

BT Group plc

GROUP RESULTS FOR THE THIRD QUARTER TO 31 DECEMBER 2013

Overview

The results for the quarter demonstrate further progress towards sustainable and profitable revenue growth. Underlying revenue excluding transit was up 2.4% with the benefits from our strategic investments offsetting regulatory pressures.

BT Global Services delivered a strong performance helped by the timing of contract milestones and supported by our operations in the high-growth regions of the world. BT Retail generated strong revenue growth driven primarily by Consumer and achieved further growth in Business IT services. BT Wholesale reported another good order intake although its revenue was impacted by the migration of services off a previously terminated contract.

We have now passed more than 18m premises in the UK with our fibre broadband network and are making progress with extending the reach of fibre to rural areas. Openreach achieved 339,000 net fibre connections, an increase of 38%, with around 2.4m homes and businesses now connected. We added 228,000 retail fibre broadband customers, up 14%, and now have around 1.9m customers.

The UK broadband market[1] grew by 252,000 in the quarter, 4% more than in the third quarter last year, of which our share of net additions was 150,000, or 60%. We have more than 2.5m direct BT Sport customers, as people continue to be attracted to our great value offering, and we achieved some particularly strong audience figures in December. During the quarter we further strengthened our football proposition, winning the exclusive live broadcast rights for the UEFA Champions League and the UEFA Europa League for three seasons from 2015/16.

We continue to make good progress in transforming our cost base and this has enabled us to raise our EBITDA outlook for the year. We are also making further investments to improve our customer service.

Income statement

Underlying revenue excluding transit was up 2.4% compared with a decline of 3.2% in the prior year. Adjusting for the timing of contract milestones, growth in underlying revenue excluding transit was slightly positive. Adjusted revenue of £4,599m was up 2% with a £4m positive impact from foreign exchange movements and an £8m positive impact from acquisitions offset by a £45m reduction in transit revenue.

Operating costs[2] were up 2%. Our underlying operating costs[2] excluding transit were up 4% as efficiencies from our cost transformation programmes were more than offset by our investment of around £140m in BT Sport and a £17m increase in the non-cash pensions operating charge. Excluding these, underlying operating costs[2] excluding transit were down 2%, a smaller decline than in the second quarter partly reflecting the costs associated with the contract milestones.

Adjusted EBITDA was flat at £1,537m. Depreciation and amortisation decreased 5% to £670m. Net finance expense was £144m, a decrease of 14% mainly due to lower net debt and a lower average interest rate.

Adjusted profit before tax was £722m. This was up 8% due to the lower depreciation and amortisation and net finance expense, reflecting our focus in recent years on capital expenditure efficiencies and debt reduction. Reported profit before tax (which includes specific items) was £617m, up 6%. The effective tax rate on the profit before specific items was 20.9% (Q3 2012/13: 22.7%) as we now expect our effective tax rate to be around 22% for the full year.

Adjusted EPS was 7.3p, up 12%, and reported EPS (which includes specific items) was 6.3p, up 11%. These are based on a weighted average number of shares in issue of 7,867m (Q3 2012/13: 7,865m).

Specific items

Specific items were a net charge after tax of £78m (Q3 2012/13: £65m) and consisted of group-wide restructuring charges of £46m (Q3 2012/13: £28m), net interest expense on pensions of £59m (Q3 2012/13: £28m) and a £27m (Q3 2012/13: £18m) tax credit on specific items.

[1] DSL and fibre, excluding cable
[2] Before depreciation and amortisation

Capital expenditure
Capital expenditure of £581m was up 2% in the quarter and down 1% for the nine months.

Free cash flow
Normalised free cash flow was an inflow of £554m, £253m lower than the prior year principally reflecting movements in working capital including the payment of the £60m deposit for the UEFA broadcast rights. For the nine months to 31 December 2013 normalised free cash flow was an inflow of £1,104m, £105m above the prior year.

The cash cost of specific items was £58m (Q3 2012/13: £96m) and mainly comprised restructuring costs of £43m and property rationalisation costs of £7m. Reported free cash flow, which includes the cash tax benefit from pension deficit payments of £19m (Q3 2012/13: £157m) and is after specific items, was an inflow of £515m (Q3 2012/13: £868m).

Net debt and liquidity
Net debt was £7,640m at 31 December 2013, a reduction of £434m compared with 30 September 2013 and £500m lower than the prior year. The movement in the quarter largely reflects the reported free cash inflow of £515m partly offset by an outflow of £76m for the purchase of 20m shares under our share buyback programme.

Pensions
The IAS 19 net pension position at 31 December 2013 was a deficit of £5.8bn net of tax (£7.3bn gross of tax), compared with £5.4bn (£6.7bn gross of tax) at 30 September 2013. The higher deficit primarily reflects an increase in market inflation expectations. BT estimates that on a median valuation basis, which reflects the expected returns from the assets held and likely liabilities, the BT Pension Scheme (BTPS) surplus remained broadly unchanged from 30 September 2013. The IAS 19 accounting position and key assumptions for the valuation are:

	31 December 2013 £bn	30 September 2013 £bn	31 March 2013 £bn
IAS 19 liabilities – BTPS	**(46.5)**	(45.8)	(47.0)
Assets – BTPS	**39.4**	39.3	41.3
Other schemes	**(0.2)**	(0.2)	(0.2)
IAS 19 deficit, gross of tax	**(7.3)**	(6.7)	(5.9)
IAS 19 deficit, net of tax	**(5.8)**	(5.4)	(4.5)
Discount rate (nominal)	4.35%	4.30%	4.20%
Discount rate (real)	0.97%	1.07%	0.87%
RPI inflation	3.35%	3.20%	3.30%
CPI inflation	0.75% below RPI for three years and 1.20% below RPI thereafter	0.75% below RPI for three years and 1.20% below RPI thereafter	0.75% below RPI for three years and 1.20% below RPI thereafter

Regulation
During the quarter Ofcom issued a new consultation on the fixed access market. This included adjustments to its proposed WLR and LLU charge controls and details of additional service commitments to be imposed on Openreach. We expect the final statement in early spring 2014.

Following Ofcom's wholesale narrowband market review, which came into effect on 1 January 2014, fixed call termination rates will be significantly reduced. The effect of this will be partly offset by a higher fixed call origination price cap. These price controls will continue until 30 September 2016.

2013/14 outlook
We continue to expect an improved trend in underlying revenue excluding transit compared with 2012/13. As a result of our cost transformation activities we now expect adjusted EBITDA to be at the upper end of the £6.0bn–£6.1bn range and capital expenditure to be below the 2012/13 level. We still expect normalised free cash flow to be around £2.3bn for the year as these improvements will be offset by the £60m deposit for the UEFA broadcast rights that we paid in the quarter.

OPERATING REVIEW

BT Global Services

	Third quarter to 31 December				Nine months to 31 December			
	2013	2012[1]	Change		**2013**	2012[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,794**	1,748	46	3	**5,184**	5,236	(52)	(1)
- underlying excluding transit				4				(1)
Operating costs	**1,531**	1,533	(2)	0	**4,538**	4,668	(130)	(3)
EBITDA	**263**	215	48	22	**646**	568	78	14
Depreciation & amortisation	**152**	157	(5)	(3)	**453**	465	(12)	(3)
Operating profit	**111**	58	53	91	**193**	103	90	87
Capital expenditure	**139**	121	18	15	**370**	374	(4)	(1)
Operating cash flow	**78**	140	(62)	(44)	**(128)**	(242)	114	47

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

Revenue

Underlying revenue excluding transit increased 4%. This was an improvement compared with recent quarters largely reflecting the expected benefit from the timing of contract milestones. After a £16m decrease in transit revenue and a £1m positive impact from foreign exchange movements, reported revenue was up 3%.

Revenue in the UK grew 2% as the contract milestones offset continued declines in central and local government business. We expect further reductions in local government revenues, reflecting the ongoing lower levels of spend and our continuing focus on only pursuing business that generates economic value.

Outside the UK, we again generated double-digit underlying revenue growth in the high-growth regions of the world. During the quarter we announced a new phase of investment into Asia Pacific, the Middle East and Africa (AMEA) including plans to hire more than 400 people in the region and launch new portfolio capabilities and sector-specific solutions.

Total order intake in the quarter was £1.5bn (Q3 2012/13: £1.9bn) with orders growing 4% on a 12-month rolling basis. In the quarter, we signed contracts across all of our key geographies. We signed a contract with Tesco to deliver new collaboration services for its global workforce. We will be providing a contact centre solution for Alsea, a cafe and restaurant operator with operations across Latin America. We also extended our contract for global network services with HeidelbergCement in Germany, serving 1,100 locations in 37 countries.

Operating results

Operating costs were flat with underlying operating costs excluding transit increasing 1%. This reflects costs associated with the contract milestones offsetting the benefit of our cost transformation programmes, which continued at a similar pace to the second quarter.

EBITDA increased 22%, partly reflecting the contract milestones. For the nine months, EBITDA grew 14%. Depreciation and amortisation reduced 3% and operating profit improved by £53m.

Capital expenditure was up 15% partly reflecting a property purchase in Latin America. Operating cash flow was an inflow of £78m, a reduction of £62m compared with the prior year reflecting the timing of contract-related receipts.

BT Retail

	Third quarter to 31 December				Nine months to 31 December			
	2013	2012[1]	Change		**2013**	2012[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,875**	1,810	65	4	**5,515**	5,412	103	2
- underlying excluding transit				3				1
Operating costs	**1,415**	1,310	105	8	**4,130**	3,924	206	5
EBITDA	**460**	500	(40)	(8)	**1,385**	1,488	(103)	(7)
Depreciation & amortisation	**110**	128	(18)	(14)	**327**	377	(50)	(13)
Operating profit	**350**	372	(22)	(6)	**1,058**	1,111	(53)	(5)
Capital expenditure	**82**	85	(3)	(4)	**265**	293	(28)	(10)
Operating cash flow	**352**	471	(119)	(25)	**866**	1,053	(187)	(18)

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

Revenue
Underlying revenue excluding transit was up 3%, the best performance for 5 years. Reported revenue increased 4%.

Consumer[2] revenue increased 6% driven by 22% growth in broadband and TV revenue, reflecting the benefit of BT Sport to our top line.

We have more than 2.5m BT Sport retail customers, which include those watching via satellite, BT TV, online or via the app. During the quarter, we won the exclusive live broadcast rights to all 350 matches each season from the UEFA Champions League and UEFA Europa League, for three years from 2015/16. We will pay around £300m per season for the rights.

Consumer line losses of 70,000 were 60% better than last year. We added 150,000 retail broadband customers, up 23%, representing 60% of the DSL and fibre broadband market net additions. We achieved our best ever quarter in fibre, with 228,000 retail fibre broadband net additions, and now have around 1.9m fibre customers. We added 53,000 TV customers, more than double the prior year. In December we upgraded our BT Wi-fi app to enable BT broadband customers to connect automatically when they are in range of any of our 5.4m BT Wi-fi hotspots. As a result of this update, by the end of the quarter 28% more broadband customers were using our free wi-fi service than at the start of the quarter.

Business revenue was flat in the quarter with 6% growth in IT services partly offset by a 1% decline in calls and lines revenue. We announced a five-year contract with Adecco Group UK for IT services and the supply and management of a new voice and data network.

BT Enterprises underlying revenue was flat in the quarter with continued lower hardware sales in BT Conferencing, particularly in Europe, offsetting growth in BT Fleet. BT Ireland underlying revenue excluding transit grew 3%.

Operating results
Operating costs increased 8%, reflecting our investment of around £140m in BT Sport, leading to EBITDA declining 8%. Depreciation and amortisation decreased 14% due to lower capital expenditure in recent years, and operating profit was down 6%.

Capital expenditure was down 4%. Operating cash flow decreased 25% primarily reflecting the deposit of £60m for the UEFA broadcast rights and the lower EBITDA.

[2] Includes customers in Northern Ireland

BT Wholesale

	Third quarter to 31 December				Nine months to 31 December			
	2013	2012[1]	Change		**2013**	2012[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**589**	645	(56)	(9)	**1,851**	1,939	(88)	(5)
- underlying excluding transit				(5)				(1)
Operating costs	**443**	492	(49)	(10)	**1,389**	1,480	(91)	(6)
EBITDA	**146**	153	(7)	(5)	**462**	459	3	1
Depreciation & amortisation	**60**	64	(4)	(6)	**186**	190	(4)	(2)
Operating profit	**86**	89	(3)	(3)	**276**	269	7	3
Capital expenditure	**61**	52	9	17	**188**	181	7	4
Operating cash flow	**30**	115	(85)	(74)	**153**	170	(17)	(10)

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

Revenue

Underlying revenue excluding transit decreased 5%. This was below the 1% growth in the first half of the year as managed solutions revenue decreased 4% having grown in recent quarters. This reflected the migration of services off the previously terminated Post Office contract, and lower levels of network build from some of our customers.

Revenue continued to decline in traditional calls and lines, down 14%, and in broadband, down 15%, where lines are migrating to LLU. These effects were partly offset by strong growth in IP services of 38%. Reported revenue decreased 9% which included a £27m decline in transit revenue.

The fourth quarter's revenue will be impacted by lower fixed call termination rates following Ofcom's wholesale narrowband market review which came into effect on 1 January 2014.

Total order intake was £467m, up 12% partly due to the highest performing quarter for Ethernet orders in the six year history of the product. IP Exchange continued to grow strongly with voice minutes reaching a new high of 3bn, up 77%.

Operating results

Underlying operating costs excluding transit reduced 5% due to lower cost of sales as well as lower selling and general administration costs. Reported operating costs decreased 10% reflecting lower transit costs.

EBITDA decreased 5% driven by the lower revenue. Depreciation and amortisation decreased 6% and operating profit decreased 3%.

Capital expenditure increased 17% due to investment in systems to drive future efficiencies. Operating cash flow was an inflow of £30m, £85m lower than last year due to the timing of customer receipts.

Openreach

	Third quarter to 31 December				Nine months to 31 December			
	2013	2012[1]	Change		**2013**	2012[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,274**	1,286	(12)	(1)	**3,790**	3,839	(49)	(1)
Operating costs	**614**	624	(10)	(2)	**1,883**	1,880	3	0
EBITDA	**660**	662	(2)	0	**1,907**	1,959	(52)	(3)
Depreciation & amortisation	**345**	358	(13)	(4)	**1,069**	1,073	(4)	0
Operating profit	**315**	304	11	4	**838**	886	(48)	(5)
Capital expenditure	**249**	287	(38)	(13)	**797**	851	(54)	(6)
Operating cash flow	**452**	448	4	1	**1,032**	1,065	(33)	(3)

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

Revenue
Revenue declined 1% as regulatory price changes had a negative impact of around £70m, or the equivalent of around 5%. This was partly offset by 72% growth in fibre broadband revenue and a 5% increase in Ethernet revenue driven by higher volumes.

The physical line base grew by 72,000. This was above the 48,000 increase last year in part because we carried out 18% more customer visits this quarter. Over the past 12 months, our physical line base has increased by 164,000.

We achieved 339,000 net fibre connections in the quarter, an increase of 38%, helping to bring the number of homes and businesses now connected to around 2.4m. We launched a fibre self-install option which makes it easier for communications providers to connect their customers. Overall broadband market[2] growth was 252,000, 4% up on last year.

We are making progress with extending the reach of fibre to rural areas. Overall, we have now won 46 regional broadband contracts[3] and are building in 36 areas, passing around 170,000 premises in the quarter. We have now passed more than 18m premises in total with our fibre broadband network.

Operating results
Operating costs reduced 2% as cost efficiencies offset pay inflation and the additional engineering resource we have recruited to support fibre provision in rural areas. The adverse weather conditions during December disrupted service to some of our customers and impacted our costs in the quarter as we sought to help those affected. EBITDA was flat, and with depreciation and amortisation down 4%, operating profit was up 4%.

Capital expenditure decreased 13% reflecting £42m of grant income relating to our investment in the regional broadband programme. Operating cash flow increased 1%.

[2] DSL and fibre, excluding cable
[3] Includes Broadband Delivery UK programme, Cornwall and Northern Ireland

FINANCIAL STATEMENTS

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 third quarter to 31 December 2012

	Before specific items Restated[1] £m	Specific items Restated[1] £m	Total Restated[1] £m
Revenue	4,527	(151)	**4,376**
Operating costs	(3,694)	87	**(3,607)**
Operating profit	833	(64)	**769**
Finance expense	(169)	(28)	**(197)**
Finance income	2	-	**2**
Net finance expense	(167)	(28)	**(195)**
Profit on disposal of interest in associate	-	9	**9**
Profit before tax	666	(83)	**583**
Tax	(151)	18	**(133)**
Profit for the period	515	(65)	**450**
Earnings per share			
- basic	6.5p		**5.7p**
- diluted	6.2p		**5.5p**

[1] See Note 1 to the condensed consolidated financial statements

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 income statement
For the nine months to 31 December 2012

	Before specific items Restated[1] £m	Specific items Restated[1] £m	Total Restated[1] £m
Revenue	13,524	(236)	**13,288**
Operating costs	(11,196)	35	**(11,161)**
Operating profit	2,328	(201)	**2,127**
Finance expense	(515)	(85)	**(600)**
Finance income	10	-	**10**
Net finance expense	(505)	(85)	**(590)**
Share of post tax profits of associates and joint ventures	9	-	**9**
Profit on disposal of interest in associate	-	130	**130**
Profit before tax	1,832	(156)	**1,676**
Tax	(416)	133	**(283)**
Profit for the period	1,416	(23)	**1,393**
Earnings per share			
- basic	18.1p		**17.8p**
- diluted	17.2p		**17.0p**

[1] See Note 1 to the condensed consolidated financial statements

Group cash flow statement

For the third quarter and nine months to 31 December

	Third quarter to 31 December		Nine months to 31 December	
	2013	2012 Restated[1]	**2013**	2012 Restated[1]
	£m	£m	**£m**	£m
Profit before tax	**617**	583	**1,565**	1,676
Depreciation and amortisation	**670**	706	**2,044**	2,151
Net finance expense	**203**	195	**614**	590
Profit on disposal of subsidiary	**-**	-	**-**	(7)
(Profit) loss on disposal of associate	**-**	(9)	**3**	(130)
Associates and joint ventures	**1**	-	**3**	(9)
Share-based payments	**15**	16	**49**	55
(Increase) decrease in working capital	**(93)**	320	**(915)**	(535)
Provisions, pensions and other non-cash movements	**7**	(136)	**50**	(75)
Cash generated from operations	**1,420**	1,675	**3,413**	3,716
Tax paid	**(133)**	(11)	**(216)**	(39)
Net cash inflow from operating activities	**1,287**	1,664	**3,197**	3,677
Cash flow from investing activities				
Interest received	**1**	3	**4**	8
Dividends received from associates	**1**	-	**1**	1
Proceeds on disposal of property, plant and equipment	**3**	6	**7**	14
Acquisition of subsidiaries, net of cash acquired	**-**	-	**(18)**	(6)
Sale of subsidiaries, net of bank overdrafts	**-**	-	**-**	17
Acquisition of joint ventures	**-**	-	**(2)**	(5)
Disposal of associates and joint ventures	**-**	113	**2**	270
Purchases of property, plant and equipment and software	**(571)**	(592)	**(1,809)**	(1,880)
Sale of non-current asset investments	**-**	-	**-**	1
Purchase of current financial assets	**(1,655)**	(1,968)	**(5,946)**	(6,675)
Sale of current financial assets	**1,713**	1,557	**5,620**	5,513
Net cash used in investing activities	**(508)**	(881)	**(2,141)**	(2,742)
Cash flow from financing activities				
Interest paid	**(206)**	(213)	**(502)**	(560)
Equity dividends paid	**(3)**	(4)	**(511)**	(449)
New borrowings	**-**	-	**400**	796
Repayment of borrowings	**(318)**	(3)	**(321)**	(308)
Repayment of finance lease liabilities	**-**	-	**(11)**	(11)
Cash flows from derivatives related to net debt	**(48)**	(6)	**(228)**	(6)
Net proceeds on (repayment of) commercial paper	**1**	(265)	**(157)**	(46)
Proceeds on issue of own shares	**7**	12	**59**	97
Repurchase of ordinary share capital	**(76)**	(75)	**(228)**	(229)
Net cash used in financing activities	**(643)**	(554)	**(1,499)**	(716)
Net increase (decrease) in cash and cash equivalents	**136**	229	**(443)**	219
Opening cash and cash equivalents	**315**	306	**919**	323
Net increase (decrease) in cash and cash equivalents	**136**	229	**(443)**	219
Effect of exchange rate movements	**(5)**	(2)	**(30)**	(9)
Closing cash and cash equivalents including overdrafts	**446**	533	**446**	533
Add back bank overdrafts	**8**	7	**8**	7
Closing cash and cash equivalents	**454**	540	**454**	540

[1] See Note 1 to the condensed consolidated financial statements

Group balance sheet

	31 December 2013 £m	31 December 2012 £m	31 March 2013 £m
Non-current assets			
Intangible assets	**3,116**	2,926	3,258
Property, plant and equipment	**13,910**	14,158	14,153
Derivative financial instruments	**492**	861	1,080
Investments	**38**	46	64
Associates and joint ventures	**19**	29	28
Trade and other receivables	**216**	184	184
Deferred tax assets	**1,494**	1,255	1,438
	19,285	19,459	20,205
Current assets			
Programme rights	**179**	-	-
Inventories	**134**	117	103
Trade and other receivables	**3,122**	2,946	2,877
Current tax receivable	**-**	-	16
Derivative financial instruments	**64**	76	170
Investments	**857**	1,675	531
Cash and cash equivalents	**454**	540	924
	4,810	5,354	4,621
Current liabilities			
Loans and other borrowings	**2,013**	2,731	1,736
Derivative financial instruments	**142**	93	74
Trade and other payables	**5,090**	5,010	5,521
Current tax liabilities	**243**	277	100
Provisions	**93**	144	120
	7,581	8,255	7,551
Total assets less current liabilities	**16,514**	16,558	17,275
Non-current liabilities			
Loans and other borrowings	**7,179**	7,999	8,277
Derivative financial instruments	**626**	917	802
Retirement benefit obligations	**7,293**	5,492	5,856
Other payables	**899**	871	883
Deferred tax liabilities	**1,019**	1,000	1,209
Provisions	**448**	507	510
	17,464	16,786	17,537
Equity			
Ordinary shares	**408**	408	408
Reserves (deficit)	**(1,358)**	(636)	(670)
Total deficit	**(950)**	(228)	(262)
	16,514	16,558	17,275

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 2013 and 31 December 2012 together with the audited balance sheet at 31 March 2013.

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 2013, 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 2013 were approved by the Board of Directors on 9 May 2013, published on 23 May 2013 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 2013.

Changes in presentation and restatements

Effective from 1 April 2013, we have made a number of changes that simplify our internal trading and more closely align our line of business financial results with our regulatory accounts. We have also adjusted the disclosure of our lines of business to reflect customer account moves and to better reflect their commercial activity. In order to present historical information on a consistent basis, we have revised comparative information for the year ended 31 March 2013 for a number of items that impact the financial results of individual lines of business, but have no impact on the total group results.

To simplify our reporting, starting from 1 April 2013 we no longer separately report other operating income. We have re-presented items previously reported as other operating income, as either revenue or a reduction in operating costs, as appropriate. Other operating income before specific items was £392m in the year ended 31 March 2013 (Q3 2012/13: £107m, nine months to 31 December 2012: £281m). This change increases group revenue by £86m for the year ended 31 March 2013 (Q3 2012/13: £17m, nine months to 31 December 2012: £56m) and reduces operating costs by £306m (Q3 2012/13: £90m, nine months to 31 December 2012: £225m). There is no impact on the group's EBITDA or profit before tax.

Finally, IAS 19 Employee Benefits (Revised) came into effect from 1 April 2013 and we have restated comparative figures to reflect the position had it applied before this date. For the year ended 31 March 2013, this has increased operating costs by £38m (Q3 2012/13: £9m, nine months to 31 December 2012: £29m) and has reduced net finance income on pensions (treated as a specific item) by £148m (Q3 2012/13: £36m, nine months to 31 December 2012: £109m), resulting in an overall reduction of £38m in EBITDA (Q3 2012/13: £9m, nine months to 31 December 2012: £29m) and adjusted profit before tax. Reported profit before tax and reported profit after tax, which are after the impact of specific items, are reduced by £186m (Q3 2012/13: £45m, nine months to 31 December 2012: £138m) and £143m (Q3 2012/13: £34m, nine months to 31 December 2012: £107m), respectively. There is no impact on the group's free cash flow.

More details are set out in our related press release published on 13 June 2013.

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 year's outlook, including revenue trends, EBITDA, capital expenditure and normalised free cash flow; cost transformation; the impact of regulation and regulatory decisions; our fibre network roll-out; BT Sport and our TV proposition; and effective tax rate.

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; 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, 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.