

BT GROUP PLC
RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2015

BT Group plc (BT.L) today announced its results for the third quarter and nine months to 31 December 2015.

| | Third quarter to 31 December 2015 | | Nine months to 31 December 2015 | |
|---|--------------------------------------|--------|------------------------------------|-----------|
| | £m | Change | £m | Change |
| Revenue ¹ | 4,594 | 3% | 13,253 | 0% |
| Change in underlying revenue ² excluding transit | | 4.7% | | 2.3% |
| EBITDA ¹ | 1,613 | 3% | 4,504 | 1% |
| Profit before tax | | | | |
| - adjusted ¹ | 928 | 14% | 2,328 | 9% |
| - reported | 862 | 24% | 2,136 | 18% |
| Earnings per share | | | | |
| - adjusted ¹ | 9.0p | 13% | 22.7p | 6% |
| - reported | 9.5p | 38% | 21.9p | 21% |
| Normalised free cash flow ³ | 904 | £(4)m | 1,579 | £16m |
| Net debt | | | 5,021 | £(1,181)m |

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

“This is a strong set of results with good numbers across the board. Revenue⁴ was up 4.7% this quarter, our best result for more than seven years. We are making good progress towards our goal of sustainable profitable revenue growth.

“BT Consumer had a standout quarter, increasing its overall line base for the first time in well over a decade and capturing 71% of new broadband customers. Good customer growth in broadband, TV and mobile helped to grow ARPU by 7%. Customers like what we’re offering, whether that’s superfast broadband, Champions League football or mobile data bundles. BT Global Services also did well with good revenue growth in continental Europe and Asia.

“These are exciting times at BT. We have completed our acquisition of EE, the UK’s best mobile network provider, and are confident that we’ll deliver the anticipated cost and revenue synergies. EE will become a separate consumer-focused line of business within the group. We’re also creating a new organisation to better serve our business and public sector customers in the UK, combining BT Business with EE’s business division and parts of BT Global Services’ UK operations. BT Global Services will focus on serving multinational companies and major customers outside the UK.

“Service continues to be a priority. Our engineers have worked tirelessly over the festive period to restore service after some of the worst flooding on record. We’re investing to improve service and are creating a further 1,000 contact centre jobs in the UK, to help us meet our commitment to answer more than 80% of consumer customer calls from within the UK by the end of this year.

“Fibre is underpinning the growth at Openreach with almost half a million premises taking up the service this quarter via dozens of service providers. The fibre market is highly competitive and growing all the time, which is great news for the UK economy. Our superfast fibre broadband network is available to well over 24m homes and businesses. We will help take fibre coverage to 95% of the country by the end of 2017, with plans to go even further. Our G.fast trials are progressing well. The UK is poised to take the important journey from superfast to ultrafast broadband and BT is well placed to lead the charge.”

Key points for the third quarter:

- Underlying revenue² excluding transit up 4.7%, our best result for more than seven years
- EBITDA¹ up 3%
- Record Openreach fibre broadband net additions of 494,000
- 71% share of UK broadband market⁵ growth
- Consumer line growth of 6,000; the first increase in over a decade
- Now more than 300,000 BT Mobile customers
- 2015/16 outlook for standalone BT: EBITDA and cash flow reaffirmed; revenue⁴ growth expected to be 1% to 2%

¹ Before specific items. Specific items are defined on page 3

² Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

³ Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

⁴ Change in underlying revenue excluding transit

⁵ DSL and FTTC

GROUP RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2015

| | Third quarter to 31 December | | | Nine months to 31 December | | |
|---|------------------------------|-------|--------|----------------------------|--------|-----------|
| | 2015 | 2014 | Change | 2015 | 2014 | Change |
| | £m | £m | % | £m | £m | % |
| Revenue | | | | | | |
| - adjusted ¹ | 4,594 | 4,475 | 3 | 13,253 | 13,212 | 0 |
| - reported | 4,637 | 4,475 | 4 | 13,456 | 13,270 | 1 |
| - change in underlying revenue ² excluding transit | | | 4.7 | | | 2.3 |
| EBITDA | | | | | | |
| - adjusted ¹ | 1,613 | 1,567 | 3 | 4,504 | 4,452 | 1 |
| - reported | 1,603 | 1,519 | 6 | 4,481 | 4,306 | 4 |
| Operating profit | | | | | | |
| - adjusted ¹ | 1,021 | 949 | 8 | 2,661 | 2,564 | 4 |
| - reported | 1,011 | 901 | 12 | 2,638 | 2,418 | 9 |
| Profit before tax | | | | | | |
| - adjusted ¹ | 928 | 814 | 14 | 2,328 | 2,142 | 9 |
| - reported | 862 | 694 | 24 | 2,136 | 1,803 | 18 |
| Earnings per share | | | | | | |
| - adjusted ¹ | 9.0p | 8.0p | 13 | 22.7p | 21.4p | 6 |
| - reported | 9.5p | 6.9p | 38 | 21.9p | 18.1p | 21 |
| Capital expenditure | 587 | 599 | (2) | 1,874 | 1,648 | 14 |
| Normalised free cash flow³ | 904 | 908 | 0 | 1,579 | 1,563 | 1 |
| Net debt | | | | 5,021 | 6,202 | £(1,181)m |

Line of business results¹

| Third quarter to 31 December | Revenue | | | EBITDA | | | Free cash flow ³ | | |
|---------------------------------|--------------|------------|-------------|--------------|------------|-------------|-----------------------------|------------|-------------|
| | 2015 £m | 2014 £m | Change % | 2015 £m | 2014 £m | Change % | 2015 £m | 2014 £m | Change % |
| BT Global Services | 1,675 | 1,694 | (1) | 276 | 261 | 6 | 109 | 52 | 110 |
| BT Business | 779 | 789 | (1) | 268 | 266 | 1 | 245 | 224 | 9 |
| BT Consumer | 1,205 | 1,083 | 11 | 270 | 251 | 8 | 348 | 274 | 27 |
| BT Wholesale | 527 | 532 | (1) | 135 | 136 | (1) | 120 | 114 | 5 |
| Openreach | 1,294 | 1,255 | 3 | 677 | 651 | 4 | 419 | 471 | (11) |
| Other and intra-group items | (886) | (878) | (1) | (13) | 2 | n/m | (337) | (227) | (48) |
| Total | 4,594 | 4,475 | 3 | 1,613 | 1,567 | 3 | 904 | 908 | 0 |

¹ Before specific items

² Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

³ Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

n/m = not meaningful

Notes:

1. The commentary focuses on the trading results on an adjusted basis, which is a non-GAAP measure, being before specific items. Unless otherwise stated, revenue, operating costs, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, profit before tax, net finance expense, earnings per share (EPS) and normalised free cash flow are measured before specific items. This is consistent with the way that financial performance is measured by management and reported to the Board and the Operating Committee and assists in providing a meaningful analysis of the trading results of the group. The directors believe that presentation of the group's results in this way is relevant to the understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Specific items may not be comparable with similarly titled measures used by other companies. Reported revenue, reported operating costs, reported EBITDA, reported operating profit, reported profit before tax, reported net finance expense, reported EPS and reported free cash flow are the equivalent unadjusted or statutory measures.
2. Trends in underlying revenue, trends in underlying operating costs, and underlying EBITDA are non-GAAP measures which seek to reflect the underlying performance of the group that will contribute to long-term sustainable growth and as such exclude the impact of acquisitions and disposals, foreign exchange movements and any specific items. We focus on the trends in underlying revenue and underlying operating costs excluding transit as transit traffic is low-margin and is significantly affected by reductions in mobile termination rates.

Enquiries

Press office:

Ross Cook

Tel: 020 7356 5369

Investor relations:

Damien Maltarp

Tel: 020 7356 4909

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

We expect to announce the fourth quarter and full year results for 2015/16 on 5 May 2016.

About BT

BT's purpose is to use the power of communications to make a better world. It 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, TV and internet products and services and converged fixed-mobile products and services. Following the acquisition of EE on 29 January 2016, BT consists principally of six customer-facing lines of business: BT Global Services, BT Business, BT Consumer, EE, BT Wholesale and Openreach.

For the year ended 31 March 2015, BT Group's reported revenue was £17,979m with reported profit before taxation of £2,645m.

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

For more information, visit www.btplc.com

BT Group plc

GROUP RESULTS FOR THE THIRD QUARTER TO 31 DECEMBER 2015

Acquisition of EE and business reorganisation

We are delighted to have acquired EE on 29 January. We're combining the UK's best 4G mobile network with the largest superfast fixed network. Together we will be the UK's leading communications provider. That means we're best placed to meet the significant demand we expect for fixed-mobile products and services.

We're also creating a digital champion for the UK as a whole. The combined business will continue to be a significant infrastructure investor building the fastest, most connected and most reliable networks and providing our customers with truly seamless connectivity.

On 29 January we issued 1,595m new shares and paid £3.5bn cash to Deutsche Telekom and Orange in consideration for EE. The cash element was funded by existing cash resources and a drawdown against the £3.6bn committed EE acquisition facility.

The transaction provides us with a chance to refresh our structure and we will do this by creating a new division that will focus on UK businesses and the public sector. From 1 April, EE's business division and parts of BT Global Services' UK corporate and public sector operations will be combined with BT Business. This will allow BT Global Services to sharpen its focus on serving multinational companies and major customers outside the UK. Alongside these changes, EE's MVNO operations and certain specialist businesses within BT Business, such as BT Fleet, will move into BT Wholesale. EE's technology team will move across to join BT TSO where they will form a mobile technology unit. We will announce the financial effect of these changes in due course.

Overview of third quarter results

Our business has performed well this quarter. We have a strong platform to bring EE together with BT, strengthening the group even further. Our key measure of the group's revenue trend, underlying revenue excluding transit, was up 4.7%, our best performance for more than seven years. This growth was delivered across most of our business. BT Consumer revenue was up 11%, with ARPU up 7%. Openreach revenue increased 3% with growth in fibre broadband partly offset by regulatory price changes. BT Global Services grew its underlying revenue excluding transit, helped by a large equipment sale in the UK, and BT Wholesale was also up, with BT Business flat. For the nine months, underlying revenue excluding transit for the group was up 2.3%.

Underlying operating costs¹ excluding transit were up 5%. As we have previously highlighted, we are no longer benefiting from the sale of redundant copper and our costs are being impacted by higher leaver charges (as last year most were included within specific items), a higher pensions operating charge and our investment in BT Sport Europe. Without these effects, underlying operating costs¹ excluding transit would have been down 1%. Adjusted EBITDA was up 3% with our revenue growth and cost transformation activities more than offsetting these impacts.

In BT Consumer, we're seeing good demand from our broadband customers for BT Mobile and our new BT Sport Europe channels. Our mobile customer base is now over 300,000. We added 97,000 TV customers, taking our customer base to 1.4m. And our BT Sport average viewing increased 46% with encouraging audience figures for the group stages of the UEFA Champions League and UEFA Europa League. Our consumer line base has grown by 6,000, the first increase in over a decade.

This year marks the tenth anniversary of Openreach, BT's local access network business. The past decade has seen an explosion in broadband usage with the number of premises using the service over Openreach's network rising from under 7m when Openreach was created to 20m at the end of December 2015. Our Ethernet network has also grown, from around 1,000 circuits to nearly 200,000.

Fibre broadband has been another success story. First deployed in 2009, it is now available to well over 24m premises, having passed around 500,000 more in the quarter. This has been one of the fastest deployments of fibre broadband anywhere in the world. Coverage is ahead of other major European countries² and we are on track to help bring fibre to 95% of the country by the end of 2017, with plans to go even further. Being part of the wider group has given Openreach the confidence and ability to invest at scale and pace in the UK's digital infrastructure. Partly reflecting this investment, the ITU recently ranked the UK in fourth place in its ICT Development Index³, out of more than 160 countries and up from 10th place in 2010.

¹ Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals, and is before depreciation and amortisation

² [http://digital-agenda-data.eu/charts/analyse-one-indicator-and-compare-countries#chart='indicator-group':'broadband','indicator':'bb_ngacov','breakdown':'TOTAL POPHH','unit-measure':'pc_hh_all','ref-area':\['EU27','FR','DE','IT','ES','UK'\]}](http://digital-agenda-data.eu/charts/analyse-one-indicator-and-compare-countries#chart='indicator-group':'broadband','indicator':'bb_ngacov','breakdown':'TOTAL POPHH','unit-measure':'pc_hh_all','ref-area':['EU27','FR','DE','IT','ES','UK']})

³ <http://www.itu.int/net4/ITU-D/idi/2015/>

In November 2015, Openreach started publishing a quarterly fibre index which reveals a number of insights into the UK's fibre broadband habits. The index showed a 40% increase in usage per fibre line last autumn compared with a year earlier. In addition, on Christmas Day, BT Consumer saw a 95% increase in data traffic.

Demand for fibre remains strong with Openreach connecting a net 494,000 new customers, an increase of 32%. There are now around 5.5m homes and businesses connected to our fibre broadband network, 22% of those passed. Other service providers added a record 244,000 or around half of the net connections in the quarter demonstrating the market-wide demand for fibre. We have 3.7m retail fibre broadband customers, having added 250,000 this quarter. The UK broadband market¹ grew by 182,000 of which our share was 130,000 or 71%.

In our other lines of business, rolling twelve-month order intake was broadly flat in BT Global Services, but with an improved mix. It was also broadly flat in BT Business, with BT Wholesale up 36%.

Income statement

Reported revenue of £4,637m was up 4%. This included ladder pricing transit revenue of £43m relating to previous years which has been treated as a specific item. Adjusted revenue, which is before specific items, of £4,594m was up 3% with a £54m negative impact from foreign exchange movements, a £31m reduction in transit revenue and a £1m impact from disposals.

Underlying revenue excluding transit was up 4.7% for the quarter, and 2.3% for the nine months, with growth in most of our lines of business.

Adjusted operating costs² were up 3% in line with the growth in revenue. Programme rights charges increased £78m primarily reflecting the launch of BT Sport Europe, with Other costs up 6% mainly due to BT Mobile marketing costs and there being no benefit this year from the sale of redundant copper. Property and energy costs were up 4%. Partly offsetting these higher costs, net labour costs decreased 3% despite leaver costs of £62m (Q3 2014/15: £1m). Payments to telecommunications operators were down 6%, largely due to lower transit costs and the benefit of foreign exchange movements. Network operating and IT costs were broadly flat.

Adjusted EBITDA was up 3% to £1,613m. Excluding foreign exchange movements and the effect of acquisitions and disposals, underlying EBITDA was up 4%.

Depreciation and amortisation of £592m was down 4%. Adjusted net finance expense was £95m, a decrease of £39m primarily due to interest earned on overpaid historical tax balances, and lower net debt.

As a result, adjusted profit before tax of £928m was up 14%. Reported profit before tax (which includes specific items) was £862m, up 24%. The effective tax rate on the profit before specific items was 18.6% (Q3 2014/15: 19.9%).

Adjusted EPS was 9.0p, up 13%, and reported EPS (which includes specific items) was 9.5p, up 38%. These are based on a weighted average number of shares in issue of 8,356m (Q3 2014/15: 8,122m).

Specific items

Specific items resulted in a net credit after tax of £41m (Q3 2014/15: £94m charge). This mainly reflects a tax credit of £94m for the re-measurement of deferred tax balances due to the upcoming changes in the UK corporation tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. This was partially offset by the net interest expense on pensions of £55m (Q3 2014/15: £72m) and EE acquisition-related costs of £11m.

We also recognised £43m of both transit revenue and costs, being the impact of ladder pricing agreements relating to previous years. Last year, specific items included restructuring charges of £54m and a net profit on investment disposals of £6m. The tax credit on specific items (excluding the re-measurement of deferred tax) was £13m (Q3 2014/15: £26m).

Capital expenditure

Capital expenditure was down slightly at £587m (Q3 2014/15: £599m) and is after £63m (Q3 2014/15: £97m) of net grant funding mainly relating to the Broadband Delivery UK (BDUK) programme. To date, we have deferred a total of £179m of grant funding reflecting the strong fibre take-up in BDUK areas. This will potentially be reinvested or repaid in future financial years.

¹ DSL and fibre

² Before depreciation and amortisation

Free cash flow

Normalised free cash flow¹ was an inflow of £904m, broadly in line with last year. The net cash cost of specific items was £18m (Q3 2014/15: £4m net cash benefit) mainly comprising prior year restructuring costs of £10m and EE acquisition-related costs of £4m. After specific items and a £44m (Q3 2014/15: £15m) cash tax benefit from pension deficit payments, reported free cash flow was an inflow of £930m (Q3 2014/15: £927m).

Net debt and liquidity

Net debt was £5,021m at 31 December 2015, a decrease of £898m since 30 September 2015 and £98m lower than 31 March 2015. In the quarter, reported free cash flow of £930m was partly offset by a cash cost of £35m on our share buyback programme for the purchase of 7m shares. So far this year we have spent £285m on our share buyback programme and we continue to expect to spend around £300m for the year as a whole.

There were no debt maturities during the quarter. At 31 December 2015 the group held cash and current investment balances of £2.7bn. We also have a £1.5bn committed facility to September 2020, which is undrawn.

Pensions

The IAS 19 net pension position at 31 December 2015 was a deficit of £4.9bn net of tax (£5.9bn gross of tax) compared with £5.6bn (£7.0bn gross of tax) at 30 September 2015. The lower deficit primarily reflects a decrease in liabilities due to lower inflationary pension increases to be awarded in 2016. The IAS 19 accounting position and associated key assumptions are:

| | 31 December 2015 | 30 September 2015 | 31 March 2015 |
|------------------------------------|--|--|--|
| | £bn | £bn | £bn |
| IAS 19 liabilities – BTPS | (47.3) | (48.2) | (50.7) |
| Assets – BTPS | 41.7 | 41.5 | 43.4 |
| IAS 19 deficit – other schemes | (0.3) | (0.3) | (0.3) |
| Total IAS 19 deficit, gross of tax | (5.9) | (7.0) | (7.6) |
| Total IAS 19 deficit, net of tax | (4.9) | (5.6) | (6.1) |
| Discount rate (nominal) | 3.65% | 3.60% | 3.25% |
| Discount rate (real) | 0.68% | 0.68% | 0.39% |
| RPI inflation | 2.95% | 2.90% | 2.85% |
| CPI inflation | 1.0% below RPI until 31 March 2017 and 1.2% below RPI thereafter | 1.0% below RPI until 31 March 2017 and 1.2% below RPI thereafter | 1.0% below RPI until 31 March 2017 and 1.2% below RPI thereafter |

Regulation

In November 2015, Ofcom issued further consultations on both the leased line charge controls that will take effect on our Ethernet and other business connectivity services from early 2016/17, and on the cost attribution methodologies in our Regulatory Financial Statements. These amended the consultations issued in June 2015 but reaffirmed Ofcom's view that some of our attribution methodologies do not reflect the activity that drives the cost. This will likely impact our future price controls, including those on leased lines. We continue to disagree with Ofcom's findings and have made our views clear in the consultation process.

In November 2015, the Court of Appeal granted TalkTalk permission to appeal the Competition Appeal Tribunal's decision in August 2014 relating to a dispute on historical Ethernet pricing that was originally determined by Ofcom in 2012. The Court has already agreed to hear our own appeal on three legal grounds. We expect the Court to hear the appeals during 2016/17.

BT is appealing to the Competition Appeal Tribunal Ofcom's November 2015 decision to remove Sky's wholesale must offer obligation on Sky Sports. We believe that effective remedies are essential to address the failure of competition in the pay-TV market, where Sky has held a dominant position for more than a decade. In the meantime we continue to offer our customers access to Sky Sports 1 and 2.

¹ Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

2015/16 outlook for standalone BT

We expect underlying revenue excluding transit to grow by 1% to 2% for the full year. While underlying revenue excluding transit grew 2.3% in the first nine months, our revenue trend in the fourth quarter will be negatively impacted by the ladder pricing revenue we recognised last year.

We continue to expect modest growth in adjusted EBITDA with normalised free cash flow to be around £2.8bn. We expect to grow our dividend per share by 10%-15% and to complete a share buyback of around £300m to help offset the dilutive effect of maturing all-employee share plans.

OPERATING REVIEW

BT Global Services

| | Third quarter to 31 December | | | | Nine months to 31 December | | | |
|--------------------------------|------------------------------|------------|--------|------|----------------------------|------------|--------|------|
| | 2015 £m | 2014 £m | Change | | 2015 £m | 2014 £m | Change | |
| | | | £m | % | | | £m | % |
| Revenue | 1,675 | 1,694 | (19) | (1) | 4,777 | 4,990 | (213) | (4) |
| - underlying excluding transit | | | | 2 | | | | (1) |
| Operating costs | 1,399 | 1,433 | (34) | (2) | 4,095 | 4,290 | (195) | (5) |
| EBITDA | 276 | 261 | 15 | 6 | 682 | 700 | (18) | (3) |
| Depreciation & amortisation | 117 | 127 | (10) | (8) | 374 | 391 | (17) | (4) |
| Operating profit | 159 | 134 | 25 | 19 | 308 | 309 | (1) | 0 |
| Capital expenditure | 103 | 121 | (18) | (15) | 296 | 343 | (47) | (14) |
| Operating cash flow | 109 | 52 | 57 | 110 | (70) | (250) | 180 | 72 |

Revenue declined 1% including a £46m negative impact from foreign exchange movements and a £13m decline in transit revenue. Underlying revenue excluding transit increased 2%, an improvement on recent quarters primarily reflecting a better performance in the UK.

UK revenue was up 2% reflecting the benefit of a large equipment sale in the corporate sector which offset the decline in public sector revenues. In the high-growth regions¹ underlying revenue excluding transit increased by 7%. It grew 6% in Continental Europe reflecting another particularly strong quarter of IP Exchange volumes and the delivery of milestones on some major customer contracts. In the US and Canada underlying revenue excluding transit declined 9% as a major customer continues to insource services.

Total order intake in the quarter was £1.7bn, down 19% but up 1% to £6.7bn on a rolling twelve-month basis, with an improved mix. In the UK we renewed and expanded our networking contract with Atos to support its internal operations as well as services it provides to clients. In addition we extended our contract with the Department for Work and Pensions for a network and contact centre solution supporting 26,000 agents. We also signed contracts with the European Commission to deliver cloud services across the main European institutions. And we signed a contract with Commerzbank for a global collaboration system bringing together 49,000 users in 20 countries across Europe, Asia, the US and the Middle East.

We continued to deliver our 'Cloud of Clouds' vision. We added Riverbed's network acceleration technology into the core of our global network to improve cloud performance. We also launched BT MeetMe with Dolby Voice conferencing services in Latin America.

Operating costs declined 2% with underlying operating costs excluding transit up 1% reflecting the large equipment sale in the UK. Operating costs included leaver costs of £9m (Q3 2014/15: £nil). EBITDA was 6% higher, or up 9% excluding foreign exchange movements, and we continue to expect EBITDA to grow in the second half of the year.

Depreciation and amortisation was down 8% due to lower capital expenditure in recent years and the timing of recognition on certain contracts. Operating profit of £159m was up 19%.

Capital expenditure was down 15% due to timing of project-related expenditure. Operating cash was a £109m inflow, an increase of £57m benefiting from improved collections and the timing of contract-specific cash flows.

¹ Asia Pacific, the Middle East and Africa (AMEA) and Latin America

BT Business

| | Third quarter to 31 December | | | | Nine months to 31 December | | | |
|--------------------------------|------------------------------|------------|--------|------|----------------------------|------------|--------|------|
| | 2015 £m | 2014 £m | Change | | 2015 £m | 2014 £m | Change | |
| | | | £m | % | | | £m | % |
| Revenue | 779 | 789 | (10) | (1) | 2,309 | 2,340 | (31) | (1) |
| - underlying excluding transit | | | | 0 | | | | 0 |
| Operating costs | 511 | 523 | (12) | (2) | 1,540 | 1,576 | (36) | (2) |
| EBITDA | 268 | 266 | 2 | 1 | 769 | 764 | 5 | 1 |
| Depreciation & amortisation | 48 | 48 | 0 | 0 | 147 | 136 | 11 | 8 |
| Operating profit | 220 | 218 | 2 | 1 | 622 | 628 | (6) | (1) |
| Capital expenditure | 35 | 42 | (7) | (17) | 107 | 98 | 9 | 9 |
| Operating cash flow | 245 | 224 | 21 | 9 | 576 | 645 | (69) | (11) |

Revenue was down 1% with underlying revenue excluding transit flat, in line with the performance in the second quarter.

SME & Corporate voice revenue decreased 3% with higher average revenue per user partly mitigating the continued fall in business line volumes, as customers move to data and VoIP services. The number of traditional lines declined 7%, in line with last quarter, but this was partly offset by a 57% increase in the number of IP lines.

SME & Corporate data and networking revenue increased 3%. This reflected continued growth in fibre broadband, helped by a 26% increase in business fibre broadband net additions, and in our networking products. IT services revenue was flat in the quarter. BT Ireland underlying revenue excluding transit was up 4% driven by equipment sales, strong data and call volumes in the Republic of Ireland, and continued fibre broadband growth in Northern Ireland. Foreign exchange movements had an £8m negative impact on BT Ireland revenue.

Order intake in the quarter decreased 5% to £491m and was down 1% to £2,097m on a rolling twelve-month basis, due to a very strong performance in Ireland last year.

In the quarter we signed a deal with Old Mutual Wealth to provide global WAN, LAN, wi-fi, security and conferencing services. We also signed a three-year agreement with Wates Group that will deliver a substantial upgrade to their data network and improved security services. In Ireland we signed a five-year BT Cloud Contact deal with RSA Insurance and renewed a wholesale deal with Three Ireland.

BT Cloud Voice (our business-grade IP voice service) and BT Cloud Phone (a 'plug and play' IP phone system) continue to perform well. During the quarter alone, the number of BT Cloud Voice users increased 35% and the number of BT Cloud Phone users increased 65%.

Our Call Essentials package, aimed at small UK businesses with up to 50 phone lines, is also performing well. We have signed up over 47,000 customers since its launch in the first quarter.

Operating costs were down 2% with underlying operating costs excluding transit down 1%, despite higher leaver costs in the quarter. EBITDA grew 1% and with depreciation and amortisation flat, operating profit was up 1%.

Capital expenditure decreased £7m. Operating cash flow was 9% higher reflecting the timing of working capital movements and the lower capital expenditure.

BT Consumer

| | Third quarter to 31 December | | | | Nine months to 31 December | | | |
|-----------------------------|------------------------------|------------|--------|-----|----------------------------|------------|--------|-----|
| | 2015 £m | 2014 £m | Change | | 2015 £m | 2014 £m | Change | |
| | | | £m | % | | | £m | % |
| Revenue | 1,205 | 1,083 | 122 | 11 | 3,406 | 3,185 | 221 | 7 |
| Operating costs | 935 | 832 | 103 | 12 | 2,680 | 2,471 | 209 | 8 |
| EBITDA | 270 | 251 | 19 | 8 | 726 | 714 | 12 | 2 |
| Depreciation & amortisation | 50 | 50 | 0 | 0 | 158 | 159 | (1) | (1) |
| Operating profit | 220 | 201 | 19 | 9 | 568 | 555 | 13 | 2 |
| Capital expenditure | 46 | 47 | (1) | (2) | 154 | 138 | 16 | 12 |
| Operating cash flow | 348 | 274 | 74 | 27 | 612 | 606 | 6 | 1 |

Revenue was up 11%, our best ever growth, with a 23% increase in broadband and TV revenue and a 5% increase in calls and lines revenue. Consumer ARPU increased 7% to £439 driven by broadband, our new BT Sport Europe channels and BT Mobile.

BT added 130,000 retail broadband customers, representing 71% of the DSL and fibre broadband market net additions. We had our second best ever quarter for fibre broadband growth, with retail net additions of 250,000, taking our customer base to 3.7m. Of our broadband customers, 46% are now on fibre.

Our consumer line base grew by 6,000 (Q3 2014/15: decline of 60,000), the best performance for over a decade, benefiting from the strong broadband performance. In the quarter we launched a major marketing campaign for BT Mobile featuring Willem Dafoe. Our BT Mobile customer base is now over 300,000 with the majority of the growth in the quarter coming from our two higher-tier packages.

We are continuing to invest in improving customer experience and are in the process of spending around £80m across operating and capital expenditure over two years to boost performance, including our commitment to answer over 80% of customer calls from within the UK by the end of 2016.

BT Sport average audience figures increased 46%. Our free-to-air channel, BT Sport Showcase, showed a further 1m households which don't currently have BT Sport what they're missing. From the start of the football season in August to the end of 2015, we had 20 match events with peak concurrent viewing above one million viewers (August to December 2014: 12). The majority of both consumer and commercial BT Sport customers continue to take the full range of our sports channels.

We had another good quarter of TV customer additions, growing the base by 97,000 to reach 1.4m customers. In the quarter we announced that BT customers would be the first to see the critically acclaimed new drama 'Manhattan' which premiered on BT's AMC channel on 5 January.

Operating costs increased 12% due to costs relating to our BT Sport Europe channels. Despite this, EBITDA grew 8% reflecting the strong revenue performance. Depreciation and amortisation was flat and operating profit was up 9%.

Capital expenditure was broadly flat in the quarter. Operating cash flow increased £74m as a result of the higher EBITDA and favourable working capital movements relating to the timing of our BT Sport Europe rights payments.

BT Wholesale

| | Third quarter to 31 December | | | | Nine months to 31 December | | | |
|--------------------------------|------------------------------|------------|--------|------|----------------------------|------------|--------|------|
| | 2015 £m | 2014 £m | Change | | 2015 £m | 2014 £m | Change | |
| | | | £m | % | | | £m | % |
| Revenue | 527 | 532 | (5) | (1) | 1,577 | 1,586 | (9) | (1) |
| - underlying excluding transit | | | | 3 | | | | 4 |
| Operating costs | 392 | 396 | (4) | (1) | 1,175 | 1,199 | (24) | (2) |
| EBITDA | 135 | 136 | (1) | (1) | 402 | 387 | 15 | 4 |
| Depreciation & amortisation | 50 | 57 | (7) | (12) | 163 | 171 | (8) | (5) |
| Operating profit | 85 | 79 | 6 | 8 | 239 | 216 | 23 | 11 |
| Capital expenditure | 41 | 49 | (8) | (16) | 131 | 155 | (24) | (15) |
| Operating cash flow | 120 | 114 | 6 | 5 | 300 | 185 | 115 | 62 |

Revenue decreased 1% driven by an £18m decline in transit revenue. Underlying revenue excluding transit was up 3% reflecting continued growth in IP services and higher connections revenue in Managed Solutions.

Managed Solutions revenue was up 10%. Calls, lines and circuits revenue was down 10% mainly due to declining volumes and customers switching to IP technologies.

Broadband revenue declined 8%, an improvement on last quarter's decline of 12% with growth in fibre partly offsetting losses to LLU.

IP services revenue was up 21%, largely driven by growth in IP Exchange minutes, up 64%. In addition, Ethernet continued to grow strongly with a 25% increase in the rental base.

Order intake was £351m compared with £439m last year, but increased 36% to £2,007m on a rolling twelve-month basis.

Operating costs decreased 1%. Underlying operating costs excluding transit increased 4% reflecting the increased volumes in IP services, partially offset by an 8% reduction in selling and general administration costs as we continue to focus on our cost transformation activities.

EBITDA was down 1%. Depreciation and amortisation was 12% lower and operating profit was up 8%.

Capital expenditure was £8m lower, contributing to a £6m increase in operating cash flow.

Openreach

| | Third quarter to 31 December | | | | Nine months to 31 December | | | |
|-----------------------------|------------------------------|------------|--------|------|----------------------------|------------|--------|-----|
| | 2015 £m | 2014 £m | Change | | 2015 £m | 2014 £m | Change | |
| | | | £m | % | | | £m | % |
| Revenue | 1,294 | 1,255 | 39 | 3 | 3,810 | 3,745 | 65 | 2 |
| Operating costs | 617 | 604 | 13 | 2 | 1,846 | 1,843 | 3 | 0 |
| EBITDA | 677 | 651 | 26 | 4 | 1,964 | 1,902 | 62 | 3 |
| Depreciation & amortisation | 318 | 332 | (14) | (4) | 983 | 1,016 | (33) | (3) |
| Operating profit | 359 | 319 | 40 | 13 | 981 | 886 | 95 | 11 |
| Capital expenditure | 321 | 300 | 21 | 7 | 1,071 | 804 | 267 | 33 |
| Operating cash flow | 419 | 471 | (52) | (11) | 1,018 | 1,108 | (90) | (8) |

Revenue increased 3% mainly driven by a 45% increase in fibre broadband revenue. Higher Ethernet volumes also contributed to the revenue growth, however regulatory price changes had an overall negative impact of around £30m, equivalent to 2% of our revenue.

Record net fibre broadband additions of 494,000 were 32% higher than last year. There are now around 5.5m homes and businesses connected to our fibre broadband network, 22% of those passed. This performance is despite the operational pressures of the recent severe weather that continued into January. Other service providers added 244,000, or around half the net connections in the quarter, demonstrating consistent market-wide demand for fibre. We have continued to put the customer first with the successful roll out of our 'View My Engineer' service. This gives both service providers and end customers notifications and online tracking of orders or when we are fixing a fault.

The UK broadband market¹ increased by 182,000 connections in the quarter compared with 258,000 in the prior year. The physical line base increased by 30,000 and has risen by 108,000 over the past 12 months.

Our ultrafast fibre broadband trials in Huntingdon and Gosforth, which are due to complete in September 2016, are progressing well. BT also added a third, technical G.fast trial in Swansea to assess deployment of the technology to residential and business customers in apartment blocks and business centres.

Operating costs grew 2% mainly reflecting a £22m increase in leaver costs which was partly offset by cost efficiencies. There was also no benefit this quarter from the sale of redundant copper (Q3 2014/15: £4m). EBITDA grew 4% and depreciation and amortisation was 4% lower with operating profit up 13%.

Capital expenditure of £321m, which is after net grant funding of £58m (Q3 2014/15: £94m), was up 7%. This was mainly due to our investment in connecting new homes and businesses and higher volumes of Ethernet. For the year as a whole, we continue to expect capital expenditure in Openreach to be above 2014/15.

Operating cash flow decreased 11% with the growth in EBITDA being more than offset by higher capital expenditure and the timing of working capital movements.

¹ DSL and fibre

FINANCIAL STATEMENTS

Group income statement

For the third quarter to 31 December 2015

| | Before specific items £m | Specific items £m | Total £m |
|--|--------------------------------|-------------------------|----------------|
| Revenue | 4,594 | 43 | 4,637 |
| Operating costs | (3,573) | (53) | (3,626) |
| Operating profit | 1,021 | (10) | 1,011 |
| Finance expense | (120) | (56) | (176) |
| Finance income | 25 | - | 25 |
| Net finance expense | (95) | (56) | (151) |
| Share of post-tax profits of associates and joint ventures | 2 | - | 2 |
| Profit before tax | 928 | (66) | 862 |
| Tax | (173) | 107 | (66) |
| Profit for the period | 755 | 41 | 796 |
| Earnings per share | | | |
| - basic | 9.0p | | 9.5p |
| - diluted | 8.9p | | 9.4p |

Group income statement

For the third quarter to 31 December 2014

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

Group income statement

For the nine months to 31 December 2015

| | Before specific items £m | Specific items £m | Total £m |
|--|--------------------------------|-------------------------|-----------------|
| Revenue | 13,253 | 203 | 13,456 |
| Operating costs | (10,592) | (226) | (10,818) |
| Operating profit | 2,661 | (23) | 2,638 |
| Finance expense | (373) | (169) | (542) |
| Finance income | 34 | - | 34 |
| Net finance expense | (339) | (169) | (508) |
| Share of post-tax profits of associates and joint ventures | 6 | - | 6 |
| Profit before tax | 2,328 | (192) | 2,136 |
| Tax | (434) | 130 | (304) |
| Profit for the period | 1,894 | (62) | 1,832 |
| Earnings per share | | | |
| - basic | 22.7p | | 21.9p |
| - diluted | 22.4p | | 21.7p |

Group income statement

For the nine months to 31 December 2014

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

Group cash flow statement

For the third quarter and nine months to 31 December

| | Third quarter to 31 December | | Nine months to 31 December | |
|--|---------------------------------|----------------|-------------------------------|----------------|
| | 2015 £m | 2014 £m | 2015 £m | 2014 £m |
| Cash flow from operating activities | | | | |
| Profit before tax | 862 | 694 | 2,136 | 1,803 |
| Share-based payments | 14 | 18 | 46 | 54 |
| Loss (profit) on disposal of subsidiaries and interest in associates | - | 2 | - | (24) |
| Share of post-tax (profits) losses of associates and joint ventures | (2) | 1 | (6) | - |
| Net finance expense | 151 | 206 | 508 | 640 |
| Depreciation and amortisation | 592 | 618 | 1,843 | 1,888 |
| Decrease (increase) in working capital | 186 | 188 | (498) | (618) |
| Provisions, pensions and other non-cash movements ¹ | (5) | 6 | (632) | 104 |
| Profit on disposal of non-current asset investment | - | (8) | - | (8) |
| Cash generated from operations² | 1,798 | 1,725 | 3,397 | 3,839 |
| Tax paid | (98) | (55) | (162) | (286) |
| Net cash inflow from operating activities | 1,700 | 1,670 | 3,235 | 3,553 |
| Cash flow from investing activities | | | | |
| Interest received and dividends from associates and joint ventures | 2 | 3 | 24 | 7 |
| Acquisition of subsidiaries ³ , associates and joint ventures | (3) | (9) | (5) | (15) |
| Disposal of subsidiaries ³ , associates and joint ventures | - | (2) | - | 26 |
| Net purchase of property, plant and equipment, software and other non-current assets | (589) | (560) | (1,810) | (1,613) |
| Net (purchase) sale of current asset investments | (1,040) | (1,021) | 1,154 | (399) |
| Net cash used in investing activities | (1,630) | (1,589) | (637) | (1,994) |
| Cash flow from financing activities | | | | |
| Interest paid | (183) | (186) | (436) | (482) |
| Equity dividends paid | (5) | (4) | (710) | (608) |
| New borrowings | - | - | 1 | 812 |
| Repayment of borrowings ⁴ | (4) | (8) | (1,275) | (1,159) |
| Cash flows from derivatives related to net debt | 17 | 109 | (49) | 159 |
| Net repayment of commercial paper | - | - | - | (338) |
| Proceeds on issue of own shares | 3 | 3 | 86 | 195 |
| Repurchase of ordinary share capital | (35) | (52) | (285) | (249) |
| Net cash used in financing activities | (207) | (138) | (2,668) | (1,670) |
| Net decrease in cash and cash equivalents | (137) | (57) | (70) | (111) |
| Opening cash and cash equivalents | 469 | 631 | 407 | 684 |
| Net decrease in cash and cash equivalents | (137) | (57) | (70) | (111) |
| Effect of exchange rate movements | 8 | 1 | 3 | 2 |
| Closing cash and cash equivalents⁵ | 340 | 575 | 340 | 575 |

¹ Includes pension deficit payments of £nil for the quarter (Q3 2014/15: £nil) and £625m for the nine months to 31 December 2015 (31 December 2014: £nil)

² Includes cash flows relating to TV programme rights

³ Acquisitions and disposals of subsidiaries are shown net of cash acquired or disposed of

⁴ Repayment of borrowings includes the impact of hedging and repayment of lease liabilities

⁵ Net of bank overdrafts of £16m (31 December 2014: £18m)

Group balance sheet

| | 31 December 2015 £m | 31 December 2014 £m | 31 March 2015 £m |
|--|---------------------------|---------------------------|------------------------|
| Non-current assets | | | |
| Intangible assets | 3,082 | 3,082 | 3,170 |
| Property, plant and equipment | 13,627 | 13,584 | 13,505 |
| Derivative financial instruments | 1,190 | 935 | 1,232 |
| Investments | 43 | 42 | 44 |
| Associates and joint ventures | 21 | 26 | 26 |
| Trade and other receivables | 189 | 151 | 184 |
| Deferred tax assets | 1,115 | 1,568 | 1,559 |
| | 19,267 | 19,388 | 19,720 |
| Current assets | | | |
| Programme rights | 380 | 196 | 118 |
| Inventories | 101 | 103 | 94 |
| Trade and other receivables | 3,247 | 3,235 | 3,140 |
| Current tax receivable | 65 | 23 | 65 |
| Derivative financial instruments | 51 | 27 | 97 |
| Investments | 2,377 | 2,170 | 3,523 |
| Cash and cash equivalents | 356 | 593 | 434 |
| | 6,577 | 6,347 | 7,471 |
| Current liabilities | | | |
| Loans and other borrowings | 1,608 | 1,737 | 1,900 |
| Derivative financial instruments | 19 | 74 | 168 |
| Trade and other payables | 5,205 | 5,053 | 5,276 |
| Current tax liabilities | 333 | 252 | 222 |
| Provisions | 107 | 111 | 142 |
| | 7,272 | 7,227 | 7,708 |
| Total assets less current liabilities | 18,572 | 18,508 | 19,483 |
| Non-current liabilities | | | |
| Loans and other borrowings | 6,822 | 7,737 | 7,868 |
| Derivative financial instruments | 781 | 859 | 927 |
| Retirement benefit obligations | 5,858 | 7,895 | 7,583 |
| Other payables | 1,037 | 916 | 927 |
| Deferred tax liabilities | 878 | 937 | 948 |
| Provisions | 386 | 405 | 422 |
| | 15,762 | 18,749 | 18,675 |
| Equity | | | |
| Ordinary shares | 419 | 408 | 419 |
| Share premium | 1,051 | 62 | 1,051 |
| Reserves (deficit) | 1,340 | (711) | (662) |
| Total equity (deficit) | 2,810 | (241) | 808 |
| | 18,572 | 18,508 | 19,483 |

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 2015 and 2014 together with the audited balance sheet at 31 March 2015.

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 2015 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 2015 were approved by the Board of Directors on 6 May 2015, published on 21 May 2015 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 2015.

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: 2015/16 outlook for standalone BT including revenue growth, EBITDA and free cash flow; BT Global Services' EBITDA; the benefits of acquiring EE and expected synergies; our liquidity and funding position and our share buyback programme; our target credit rating; dividend growth; Openreach capital expenditure; our fibre broadband rollout and coverage, deployment of G.fast technology, customer demand for ultrafast broadband, and our net connections; our BT Sport offering and enhanced TV proposition; and the impact of regulatory and legal decisions and outcomes of appeals.

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

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory and legal actions, decisions, outcomes of appeal 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 EE acquisition anticipated synergies, benefits and return on investment not being realised; 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.