

Financial results



1 February 2013

BT GROUP PLC

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2012

BT Group plc (BT.L) today announced its results for the third quarter and nine months to 31 December 2012.

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

"Our fibre plans are helping to make the UK a broadband leader in Europe. More than 13 million premises can access our fibre broadband and we are passing around 100,000 additional premises every week. Take-up is growing strongly with around 1.25 million homes and businesses now enjoying the benefits of faster speeds. This gives us an excellent platform for our push into TV and Sport later this year. Our pre-season training is going well. We have secured attractive new content and world class production facilities at the Olympic Park and are building a strong team.

"Our engineers have worked tirelessly following some of the wettest weather on record. Not only did they complete a record number of field visits in the quarter, they also connected a further 281,000 homes and businesses to broadband and helped us grow the number of landlines. BT Global Services has also done well securing £1.9bn of new orders, up 17%.

"We have made progress in a number of areas and delivered solid financial results. These are in line with our expectations for the year, which remain unchanged."

Third quarter and nine months results:

	Third quarter to 31 December 2012		Nine months to 31 December 2012	
	£m	Change	£m	Change
Revenue ¹	4,510	(6)%	13,468	(7)%
Underlying revenue excluding transit		(3)%		(4)%
EBITDA ¹	1,548	2%	4,508	1%
Profit before tax ¹	675	7%	1,861	8%
Earnings per share				
- adjusted ¹	6.6p	8%	18.4p	9%
- reported	6.2p	(2)%	19.1p	8%
Normalised ² free cash flow	807	£173m	999	£(399)m
Net debt			8,140	£404m

¹ Before specific items

² Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

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RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2012

Group results

	Third quarter to 31 December			Nine months to 31 December		
	2012 £m	2011 £m	Change %	2012 £m	2011 £m	Change %
Revenue						
- adjusted ¹	4,510	4,774	(6)	13,468	14,432	(7)
- reported (see Note below)	4,359	4,774	(9)	13,232	14,022	(6)
- underlying excluding transit ²			(3)			(4)
EBITDA						
- adjusted ¹	1,548	1,524	2	4,508	4,455	1
- reported (see Note below)	1,484	1,498	(1)	4,307	4,296	0
Operating profit						
- adjusted ¹	842	790	7	2,357	2,229	6
- reported	778	764	2	2,156	2,070	4
Profit before tax						
- adjusted ¹	675	628	7	1,861	1,731	8
- reported	628	652	(4)	1,814	1,721	5
Earnings per share						
- adjusted ¹	6.6p	6.1p	8	18.4p	16.9p	9
- reported	6.2p	6.3p	(2)	19.1p	17.7p	8
Capital expenditure	572	665	(14)	1,790	1,899	(6)
Free cash flow						
- normalised ³	807	634	27	999	1,398	(29)
- adjusted ¹	964	634	52	1,480	1,613	(8)
Net debt				8,140	7,736	5

Note: Reported revenue and EBITDA include a specific item charge of £151m and £36m, respectively, in the third quarter and nine months to 31 December 2012 relating to Ofcom's determinations on historic Ethernet pricing. See Group results – Specific items for more details.

Line of business results¹

Third quarter to 31 December	Revenue			EBITDA			Operating cash flow		
	2012 £m	2011 £m	Change %	2012 £m	2011 £m	Change %	2012 £m	2011 £m	Change %
BT Global Services	1,746	1,894	(8)	163	144	13	88	134	(34)
BT Retail	1,793	1,849	(3)	474	453	5	450	284	58
BT Wholesale	890	979	(9)	289	303	(5)	251	145	73
Openreach	1,274	1,300	(2)	579	591	(2)	365	304	20
Other and intra-group items	(1,193)	(1,248)	4	43	33	30	(190)	(233)	18
Total	4,510	4,774	(6)	1,548	1,524	2	964	634	52

¹ Before specific items. Specific items are defined below

² Underlying revenue excluding transit is defined below

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

Notes:

- 1) Unless otherwise stated, any reference to revenue, operating costs, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, profit before tax, earnings per share (EPS) and free cash flow 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, reported EPS and reported free cash flow are the equivalent unadjusted or statutory measures.
- 2) 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 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.
- 3) Unless otherwise stated, the references 2013 and 2014 are the financial years to 31 March 2013 and 2014, respectively.

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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 2013 are expected to be announced on Friday 10 May 2013.

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 ended 31 March 2012, BT Group's revenue was £18,897m with profit before taxation of £2,445m.

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 2012

GROUP RESULTS

Operating results overview

Our key measure of the underlying revenue trend, underlying revenue excluding transit, was down 3.1%, an improvement compared with recent quarters reflecting better performances from BT Global Services and BT Wholesale. Whilst improving, our underlying revenue trend continues to be impacted by the tough conditions in Europe and the financial services sector, regulatory price reductions and lower revenue from calls and lines.

Reported revenue of £4,359m was down 9% which includes the impact of certain regulatory decisions which have been treated as a specific item (see Specific items below). Excluding specific items, revenue was down 6% at £4,510m. This decline includes a £66m reduction in transit revenue (including mobile termination rate reductions of £37m), a £50m negative impact from foreign exchange movements, and an £8m impact from disposals.

Underlying operating costs before depreciation and amortisation were down 7%, or 5% excluding transit, reflecting the impact of our cost transformation programmes and reduced cost of sales due to the decline in revenue. Total operating costs before depreciation and amortisation and specific items decreased by £274m, or 8%, to £3,069m, and have reduced by over £1bn for the nine months.

Adjusted EBITDA increased by 2% to £1,548m. Foreign exchange movements and disposals had no significant impact on EBITDA.

Depreciation and amortisation decreased by 4% to £706m largely due to lower overall capital expenditure over the last three financial years. Capital expenditure decreased by 14% to £572m primarily reflecting the higher spend last year on Wholesale Broadband Connect.

Profit before tax

Adjusted profit before tax was £675m, up 7%, reflecting the higher EBITDA and lower depreciation and amortisation. Reported profit before tax (which includes specific items) was £628m, down 4%.

Tax

The effective tax rate on the profit before specific items was 22.7% (Q3 2012: 24.1%) and is in line with our outlook of around 23% for the full year.

Fibre and broadband

We have passed more than 13m premises with our fibre broadband, an increase of around 1.3m in the quarter. Take-up is growing strongly and we achieved around 250,000 connections in the quarter, with around 1.25m homes and businesses now taking a fibre based service.

Total broadband market net additions¹ grew 7% to 281,000 of which we added 122,000 retail broadband customers, a 44% share.

Regulation

In the quarter Ofcom issued its final determinations on disputes over historic Ethernet pricing (see Specific items below). We disagree with the determinations and are likely to appeal against them. These determinations cover the period from April 2006 to March 2011 and do not impact Openreach's current pricing for Ethernet products.

The charge controls for WLR, LLU and ISDN30 products which became effective in April 2012 impacted revenue in the quarter. We continue to expect these to have a negative impact of around £100m-£200m on group revenue in the 2013 financial year with a further similar year on year impact in the 2014 financial year. The July 2012 Court of Appeal decision against wholesale ladder termination pricing also impacted the third quarter year on year EBITDA trend by £12m.

Ofcom's final determination on the Business Connectivity Market Review and the associated Leased Lines Charge Control is expected to be issued in the next few months. We also expect the consultation on the Wholesale Narrowband Market Review in the next few weeks.

¹ DSL and fibre, excluding cable

Specific items

Specific items resulted in a net charge after tax of £38m (Q3 2012: £15m net credit).

Charges of £151m and £36m were recognised against revenue and EBITDA, respectively, following Ofcom's determinations on historic Ethernet pricing.

Restructuring charges of £28m (Q3 2012: £8m) were incurred. In the quarter we started the next phase of our group-wide restructuring programme which is expected to generate future cost savings and further improve customer service delivery. As part of this programme, we commenced the reorganisation of BT Innovate & Design and BT Operate, our two internal service units, to form BT Technology, Service and Operations (BT TSO). This new unit is responsible for the innovation, design, test, build and running of our global networks and systems on an end to end basis. We are also further rationalising and transforming our resources, processes, networks and systems within BT Global Services. We expect additional group restructuring costs to be incurred over the remainder of this year and next.

A profit of £9m was recognised on the disposal of our remaining 9.1% interest in Tech Mahindra. Our total investment in Tech Mahindra has in aggregate generated returns of around £350m. Net interest income on pensions was £8m (Q3 2012: £50m).

Earnings per share

Adjusted EPS was 6.6p, up 8%, reflecting the growth in profit before tax. Reported EPS (which includes specific items) was 6.2p, down 2%. These are based on a weighted average number of shares in issue of 7,865m (Q3 2012: 7,766m).

Free cash flow

Normalised free cash flow was an inflow of £807m, an increase of £173m compared with the prior year principally reflecting the timing of customer receipts and lower capital expenditure.

Adjusted free cash flow, which includes a £157m tax benefit from pension deficit payments (Q3 2012: nil), was an inflow of £964m (Q3 2012: £634m).

The cash cost of specific items was £96m (Q3 2012: £48m) including £44m following the regulatory decision on historic Ethernet pricing, restructuring costs of £29m (Q3 2012: £27m) and property rationalisation costs of £17m (Q3 2012: £21m).

Net debt and liquidity

Net debt was £8,140m at 31 December 2012, a reduction of £897m in the quarter largely reflecting the adjusted free cash inflow of £964m and Tech Mahindra disposal proceeds of £113m. These inflows were partly offset by an outflow of £96m for specific items and £75m for the purchase of 32m shares under our share buyback programme.

At 31 December 2012 the group had cash and current investment balances of £2.2bn and available facilities of £1.5bn providing us with a strong liquidity and funding position. In January 2013 £1.4bn of term debt matured and was funded from these cash and investment balances.

Pensions

The IAS 19 net pension position at 31 December 2012 was a deficit of £4.3bn net of tax (£5.5bn gross of tax), compared with a deficit of £1.9bn (£2.4bn gross of tax) at 31 March 2012 and £3.1bn (£4.0bn gross of tax) at 30 September 2012. The higher deficit over the nine months principally reflects the lower discount rate, with asset values up £0.3bn. The IAS 19 accounting position and key assumptions for the liability valuation are:

	31 December 2012	31 March 2012
	£bn	£bn
IAS 19 liabilities - BTPS	(43.9)	(40.6)
Assets - BTPS	38.6	38.3
Other schemes	(0.2)	(0.1)
IAS 19 deficit, gross of tax	(5.5)	(2.4)
IAS 19 deficit, net of tax	(4.3)	(1.9)
Discount rate (nominal)	4.25%	4.95%
Discount rate (real)	1.51%	1.84%
RPI inflation	2.70%	3.05%
CPI inflation	0.75% below RPI for three years and 1.00% below RPI thereafter	0.75% below RPI for three years and 1.20% below RPI thereafter

OPERATING REVIEW

BT Global Services

	Third quarter to 31 December				Nine months to 31 December			
	2012 £m	2011 £m	Change £m %		2012 £m	2011 £m	Change £m %	
Revenue	1,746	1,894	(148)	(8)	5,233	5,813	(580)	(10)
- underlying excluding transit				(5)				(6)
Net operating costs ¹	1,583	1,750	(167)	(10)	4,821	5,372	(551)	(10)
EBITDA	163	144	19	13	412	441	(29)	(7)
Depreciation & amortisation	156	169	(13)	(8)	464	534	(70)	(13)
Operating profit (loss)	7	(25)	32	n/m	(52)	(93)	41	44
Capital expenditure	121	139	(18)	(13)	374	411	(37)	(9)
Operating cash flow	88	134	(46)	(34)	(398)	19	(417)	n/m

¹ Net of other operating income
n/m = not meaningful

Revenue

Underlying revenue excluding transit decreased by 5%, reflecting the continued tough conditions in Europe and the financial services sector. Revenue was down 8%, including a £44m negative impact from foreign exchange movements and an £8m impact from disposals.

Order intake was strong at £1.9bn in the quarter (Q2 2013: £1.3bn; Q3 2012: £1.6bn). We signed contracts with leading organisations around the world including: Novartis, for new collaboration services and to connect additional global locations; Visa Europe, to provide managed solutions for its payments processing and corporate services; KPMG, for the provision of managed network, voice and conferencing services; HTC, for a global customer contact management solution covering 60 countries; the City of Edinburgh, for a technology refresh of the council's education service; Clarins Group, to transform its global IT infrastructure and improve the management of its critical applications; and the Public Employment Agency of Spain, to provide cloud-based IP telephony and contact centre services for 800 branches.

Operating results

Net operating costs decreased by 10% reflecting the reduction in revenue and the impact of our cost transformation programmes. Underlying net operating costs excluding transit costs declined by 7%. In the quarter we continued our network optimisation programme, adding new points of presence in Europe and Asia to enhance service delivery to customers and to reduce third party network costs. We have also improved commercial terms with some of our suppliers, which reduced contract delivery costs, and we opened a new centre for contract management services, which will provide better customer service and lead to more efficient processes.

EBITDA increased by 13%, or 17% excluding foreign exchange movements and disposals, partly reflecting the timing of costs during the year. For the nine months, EBITDA was down 7%, or 1% excluding foreign exchange movements and disposals. Operating profit increased by £32m to £7m reflecting the improved EBITDA and an 8% reduction in depreciation and amortisation.

Capital expenditure reduced by 13% as the prior year included additional customer contract-related spend. This contributed to EBITDA less capital expenditure increasing by £37m to £42m. Operating cash flow of £88m was below the prior year partly reflecting the timing of customer receipts.

BT Retail

	Third quarter to 31 December				Nine months to 31 December			
	2012	2011	Change		2012	2011	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue	1,793	1,849	(56)	(3)	5,360	5,532	(172)	(3)
Net operating costs ¹	1,319	1,396	(77)	(6)	3,936	4,188	(252)	(6)
EBITDA	474	453	21	5	1,424	1,344	80	6
Depreciation & amortisation	99	101	(2)	(2)	292	305	(13)	(4)
Operating profit	375	352	23	7	1,132	1,039	93	9
Capital expenditure	86	108	(22)	(20)	280	311	(31)	(10)
Operating cash flow	450	284	166	58	1,014	922	92	10

¹ Net of other operating income

Revenue

Revenue decreased by 3%, in line with the previous quarter.

Consumer revenue decreased by 3% with lower calls and lines revenue partially offset by growth in broadband, driven by an increasing contribution from fibre.

In the quarter we added 122,000 retail broadband customers, representing 44% of the DSL and fibre broadband market net additions. We added 200,000 retail fibre broadband customers and have more than 1m customers, representing 16% of our retail broadband customer base. We added 21,000 BT Vision customers in the quarter and now have over 60,000 customers with a YouView box. BT Wi-fi minutes trebled year on year for the second quarter running and reached 3.9bn minutes, with the number of hotspots increasing by around 40% to 4.8m.

Business revenue decreased by 3% with lower calls and lines revenue partially offset by growth in IT services. We provided our first major customer with BT Managed Compute, a cloud-based IT infrastructure platform.

BT Enterprises revenue was flat, excluding the impact of foreign exchange movements, with growth in BT Expedite offset by decline in the other divisions.

BT Ireland revenue increased by 5%, excluding the impact of foreign exchange movements, with growth across all areas of the business. Half of our retail broadband customers in Northern Ireland are now taking fibre which is helping to drive revenue growth. In the quarter, we were selected as the NI Direct strategic partner to develop and improve access to Northern Ireland government services.

Operating results

Net operating costs decreased by 6% primarily as a result of our cost transformation initiatives and reduced cost of sales associated with the lower revenue. EBITDA increased by 5% and with depreciation and amortisation decreasing by 2%, operating profit was up 7%.

Capital expenditure decreased by 20%. Operating cash flow increased by 58% largely reflecting the timing of working capital including customer receipts.

BT Wholesale

	Third quarter to 31 December				Nine months to 31 December			
	2012	2011	Change		2012	2011	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue	890	979	(89)	(9)	2,674	2,965	(291)	(10)
- underlying excluding transit				(3)				(3)
Net operating costs ¹	601	676	(75)	(11)	1,805	2,050	(245)	(12)
EBITDA	289	303	(14)	(5)	869	915	(46)	(5)
Depreciation & amortisation	149	149	-	-	444	450	(6)	(1)
Operating profit	140	154	(14)	(9)	425	465	(40)	(9)
Capital expenditure	52	82	(30)	(37)	181	245	(64)	(26)
Operating cash flow	251	145	106	73	580	486	94	19

¹ Net of other operating income

Revenue

Underlying revenue excluding transit decreased by 3%, or 1% excluding ladder pricing, with growth in managed network services offset by the ongoing impact of broadband lines migrating to LLU. Revenue decreased by 9%, or 7% excluding ladder pricing, including a £67m decline in transit revenue driven by both lower volumes and mobile termination rate reductions.

IP Exchange continues to grow with voice minutes in the quarter increasing by over 80%. We expect revenue from IP Exchange in BT Wholesale and BT Global Services to be around £100m this year. This quarter we have supported the launch of 4G services in the UK through increased backhaul capacity at key base station sites.

Total order intake was around £400m compared with around £340m last year and has more than doubled in the nine months. We signed a new five-year contract with BSkyB to continue to provide wholesale voice services for their off-network fixed-line customers, in addition to a number of new contract wins.

Operating results

Net operating costs decreased by 11%, or 2% excluding transit costs primarily due to a reduction in labour costs. EBITDA decreased by 5%, or 1% excluding ladder pricing, and with depreciation and amortisation flat, operating profit declined by 9%, or 1% excluding ladder pricing.

Capital expenditure decreased by 37% primarily due to lower spend on Ethernet, as a result of improvements in capacity management, and on Wholesale Broadband Connect. Operating cash flow increased by 73% principally due to the timing of customer receipts and lower capital expenditure.

Openreach

	Third quarter to 31 December				Nine months to 31 December			
	2012	2011	Change		2012	2011	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue	1,274	1,300	(26)	(2)	3,800	3,835	(35)	(1)
Net operating costs ¹	695	709	(14)	(2)	2,086	2,139	(53)	(2)
EBITDA	579	591	(12)	(2)	1,714	1,696	18	1
Depreciation & amortisation	244	236	8	3	731	700	31	4
Operating profit	335	355	(20)	(6)	983	996	(13)	(1)
Capital expenditure	287	292	(5)	(2)	851	796	55	7
Operating cash flow	365	304	61	20	820	831	(11)	(1)

¹ Net of other operating income

Revenue

The continued impact of regulatory price changes reduced revenue by around £50m. This was partially offset by growth in Ethernet and fibre resulting in a revenue decline of 2%.

The physical line base grew by 48,000. The additional engineering resource we have recruited has helped to address the increase in provision lead times and repair activity resulting from one of the wettest years on record.

Our fibre broadband is available to over 13m premises, an increase of around 1.3m in the quarter. We achieved around 250,000 fibre connections in the quarter, with around 1.25m homes and businesses now connected. Total DSL and fibre broadband net additions of 281,000 were 7% higher.

In the quarter we won the Broadband Delivery UK (BDUK) regional bids to deploy fibre broadband in Cumbria, Herefordshire & Gloucestershire, Norfolk and Suffolk. We were also awarded preferred bidder status in Devon & Somerset and Wiltshire & South Gloucestershire, which we have since won. We connected the first BDUK customers in North Yorkshire, less than six months after signing the contract.

Operating results

Net operating costs reduced by 2%. This was a smaller decline than in the second quarter, reflecting the impact of the additional engineering resource we have recruited. EBITDA declined by 2% and with depreciation and amortisation increasing by 3%, reflecting the investment in fibre broadband and Ethernet, operating profit was down 6%.

Capital expenditure was 2% lower in the quarter. Operating cash flow increased by 20% due to the timing of customer receipts.

FINANCIAL STATEMENTS

Group income statement

For the third quarter to 31 December 2012

	Before specific items £m	Specific items £m	Total £m
Revenue	4,510	(151)	4,359
Other operating income	107	-	107
Operating costs	(3,775)	87	(3,688)
Operating profit	842	(64)	778
Finance expense	(169)	(493)	(662)
Finance income	2	501	503
Net finance expense	(167)	8	(159)
Profit on disposal of associate	-	9	9
Profit before tax	675	(47)	628
Tax	(153)	9	(144)
Profit for the period	522	(38)	484
Attributable to:			
Equity shareholders	522	(38)	484
Non-controlling interests	-	-	-
Earnings per share			
- basic	6.6p		6.2p
- diluted	6.3p		5.9p

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 nine months to 31 December 2012

	Before specific items £m	Specific items £m	Total £m
Revenue	13,468	(236)	13,232
Other operating income	281	7	288
Operating costs	(11,392)	28	(11,364)
Operating profit	2,357	(201)	2,156
Finance expense	(515)	(1,480)	(1,995)
Finance income	10	1,504	1,514
Net finance expense	(505)	24	(481)
Share of post tax profits of associates and joint ventures	9	-	9
Profit on disposal of associate	-	130	130
Profit before tax	1,861	(47)	1,814
Tax	(422)	108	(314)
Profit for the period	1,439	61	1,500
Attributable to:			
Equity shareholders	1,438	61	1,499
Non-controlling interests	1	-	1
Earnings per share			
- basic	18.4p		19.1p
- diluted	17.5p		18.3p

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 cash flow statement

For the third quarter and nine months to 31 December

	Third quarter to 31 December		Nine months to 31 December	
	2012 £m	2011 £m	2012 £m	2011 £m
Profit before tax	628	652	1,814	1,721
Depreciation and amortisation	706	734	2,151	2,226
Net finance expense	159	116	481	359
Investments impairment charge	-	-	17	-
(Profit) loss on disposal of subsidiary	-	-	(7)	19
Associates and joint ventures	-	(4)	(9)	(10)
Profit on disposal of associate	(9)	-	(130)	-
Share-based payments	16	18	55	58
Decrease (increase) in working capital	320	88	(535)	(374)
Provisions, pensions and other non-cash movements	(145)	(17)	(121)	106
Cash generated from operations	1,675	1,587	3,716	4,105
Tax paid	(11)	(163)	(39)	(228)
Net cash inflow from operating activities	1,664	1,424	3,677	3,877
Cash flow from investing activities				
Interest received	3	1	8	3
Dividends received from associates and joint ventures	-	-	1	4
Proceeds on disposal of property, plant and equipment	6	3	14	13
Acquisition of subsidiaries, net of cash acquired	-	-	(6)	(5)
Sale of subsidiaries, net of bank overdrafts	-	-	17	13
Acquisition of joint ventures	-	-	(5)	-
Disposal of associates and joint ventures	113	-	270	7
Purchases of property, plant and equipment and software	(592)	(642)	(1,880)	(1,888)
Sale of non-current asset investments	-	1	1	1
Purchase of current financial assets	(1,968)	(2,609)	(6,675)	(6,327)
Sale of current financial assets	1,557	1,948	5,513	4,984
Net cash used in investing activities	(881)	(1,298)	(2,742)	(3,195)
Cash flow from financing activities				
Interest paid	(213)	(201)	(560)	(548)
Equity dividends paid	(4)	(3)	(449)	(388)
New borrowings	-	-	796	-
Repayment of borrowings	(3)	(8)	(308)	(22)
Repayment of finance lease liabilities	-	-	(11)	(2)
Cash flows from derivatives related to net debt	(6)	15	(6)	286
Net repayment of commercial paper	(265)	-	(46)	(69)
Proceeds on issue of treasury shares	12	3	97	11
Repurchase of ordinary share capital	(75)	-	(229)	-
Net cash used in financing activities	(554)	(194)	(716)	(732)
Effect of exchange rate movements	(2)	(1)	(9)	-
Net increase (decrease) in cash and cash equivalents	227	(69)	210	(50)
Cash and cash equivalents, net of bank overdrafts, at beginning of period	306	344	323	325
Cash and cash equivalents, net of bank overdrafts, at end of period	533	275	533	275

Group balance sheet

	31 December 2012 £m	31 December 2011 £m	31 March 2012 £m
Non-current assets			
Intangible assets	2,926	3,189	3,127
Property, plant and equipment	14,158	14,426	14,388
Derivative financial instruments	861	1,112	886
Investments	46	63	68
Associates and joint ventures	29	151	153
Trade and other receivables	184	220	169
Deferred tax assets	1,255	1,382	626
	19,459	20,543	19,417
Current assets			
Inventories	117	116	104
Trade and other receivables	2,946	3,655	3,307
Current tax receivable	-	-	139
Derivative financial instruments	76	77	137
Investments	1,675	1,342	513
Cash and cash equivalents	540	283	331
	5,354	5,473	4,531
Current liabilities			
Loans and other borrowings	2,731	912	2,887
Derivative financial instruments	93	46	89
Trade and other payables	5,010	5,997	5,962
Current tax liabilities	277	423	66
Provisions	144	86	251
	8,255	7,464	9,255
Total assets less current liabilities	16,558	18,552	14,693
Non-current liabilities			
Loans and other borrowings	7,999	9,075	7,599
Derivative financial instruments	917	819	757
Retirement benefit obligations	5,492	5,435	2,448
Other payables	871	881	875
Deferred tax liabilities	1,000	1,167	1,100
Provisions	507	852	606
	16,786	18,229	13,385
Equity			
Ordinary shares	408	408	408
(Deficit) reserves	(646)	(95)	889
Total parent shareholders' (deficit) equity	(238)	313	1,297
Non-controlling interests	10	10	11
Total (deficit) equity	(228)	323	1,308
	16,558	18,552	14,693

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 2012 and 31 December 2011 together with the audited balance sheet at 31 March 2012.

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 2012 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 2012 were approved by the Board of Directors on 9 May 2012, published on 25 May 2012 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 2012.

Government grants

Our policy for the recognition of government grants was changed from 1 April 2012. Under the new policy, capital expenditure and operating costs are recognised 'net' of government grants receivable. The net presentation is considered a more appropriate policy than the previous 'gross' presentation as it better presents the incremental costs to the business. The new policy has been applied prospectively and comparative financial information has not been restated on the basis of the immaterial impact of grant funding on prior period financial information.

Forward-looking statements – caution advised

Certain statements in this results release are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: current and future years' outlook, including revenue trends, EBITDA and normalised free cash flow; the impact of regulation and regulatory decisions; our fibre roll-out programme; our group-wide restructuring; continuing cost transformation and efficiencies in our BT Global Services business; IP Exchange revenue; effective tax rate; and liquidity and funding.

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

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services, and demand for bundled 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, and BT Global Services restructuring programmes 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.