Financial results

30 July 2015

BT GROUP PLC

RESULTS FOR THE FIRST QUARTER TO 30 JUNE 2015

BT Group plc (BT.L) today announced its results for the first quarter to 30 June 2015.

		First quarter to 30 June 2015	
		£m	Change
Revenue[1]		**4,278**	(2)%
Change in underlying revenue[2] excluding transit			0%
EBITDA[1]		**1,449**	1%
Profit before tax	- adjusted[1]	**694**	9%
	- reported	**632**	16%
Earnings per share	- adjusted[1]	**6.7p**	3%
	- reported	**6.1p**	9%
Normalised free cash flow[3]		**106**	£(16)m
Net debt		**5,819**	£(1,260)m

Gavin Patterson, Chief Executive, commenting on the results, said:
"This is an exciting time at BT. We continue to invest heavily in our superfast fibre broadband network. It now reaches around 80% of all UK premises and we will work with government to help take fibre broadband to 95% of the country by the end of 2017. Our technical trials of ultrafast broadband using G.fast are progressing well; we're on target to start large-scale customer trials this summer.

"Our mobile plans have got off to a good start with more than 100,000 consumer mobile customers signed up in the first three months. We're also looking forward to completing our acquisition of EE, which will allow us to create a true UK digital champion, providing customers with greater choice and value and helping to deliver the UK's connected future.

"We're launching BT Sport Europe in the next few days, the new home of UEFA Champions League football, which is free for our BT TV customers. We are also leading the way on Ultra HD TV. Our BT Sport Ultra HD channel will be the first live sports channel in Europe offering picture quality four times that of normal high definition.

"We have also invested further in improving customer service and Openreach is running ahead of all 60 minimum service levels set by Ofcom for this year. And we are engaging with Ofcom as part of its Strategic Review of Digital Communications which offers scope for deregulation and the potential to create a more level playing field in pay-TV.

"The investments we are making in our business and customer service are building a strong platform for growth. And our financial results show we're on track to achieve our outlook for the full year."

Key points for the quarter:

- Underlying revenue[2] excluding transit was flat, an improvement on the 1.3% decline last quarter
- Underlying operating costs[4] excluding transit down 1%
- EBITDA[1] up 1% and earnings per share[1] up 3%
- Superfast fibre broadband available to more than 23m premises, around 80% of the UK
- 20% superfast fibre broadband take-up; new base-case assumption of reaching 28% penetration

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

BT Group Communications
BT Centre
81 Newgate Street
London
EC1A 7AJ

BT Group plc
Registered Office:
81 Newgate Street London EC1A 7AJ
Registered in England and Wales no. 4190816
www.btplc.com

GROUP RESULTS FOR THE FIRST QUARTER TO 30 JUNE 2015

	First quarter to 30 June		
	2015	2014	Change
	£m	£m	%
Revenue			
- adjusted[1]	**4,278**	4,354	(2)
- reported	**4,360**	4,354	0
- change in underlying revenue[2] excluding transit			0
EBITDA			
- adjusted[1]	**1,449**	1,435	1
- reported	**1,442**	1,391	4
Operating profit			
- adjusted[1]	**821**	783	5
- reported	**814**	739	10
Profit before tax			
- adjusted[1]	**694**	638	9
- reported	**632**	546	16
Earnings per share			
- adjusted[1]	**6.7p**	6.5p	3
- reported	**6.1p**	5.6p	9
Capital expenditure	**658**	516	28
Normalised free cash flow[3]	**106**	122	(13)
Net debt	**5,819**	7,079	£(1,260)m

Note: In the first quarter to 30 June 2015, reported revenue and operating costs include transit revenue and costs of £82m, being the impact of ladder pricing agreements relating to prior years following a Supreme Court judgment last year.

Line of business results[1]

	Revenue			EBITDA			Free cash flow[3]		
First quarter to 30 June	**2015**	2014	Change	**2015**	2014	Change	**2015**	2014	Change
	£m	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**1,543**	1,647	(6)	**190**	213	(11)	**(292)**	(337)	13
BT Business	**749**	762	(2)	**240**	240	0	**116**	190	(39)
BT Consumer	**1,074**	1,046	3	**254**	238	7	**211**	227	(7)
BT Wholesale	**530**	525	1	**140**	126	11	**117**	11	n/m
Openreach	**1,249**	1,245	0	**639**	624	2	**270**	298	(9)
Other and intra-group items	**(867)**	(871)	0	**(14)**	(6)	(133)	**(316)**	(267)	(18)
Total	**4,278**	4,354	(2)	**1,449**	1,435	1	**106**	122	(13)

[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 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.

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 are scheduled to announce the second quarter and half year results for 2015/16 on Thursday 29 October 2015.

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 and internet products and services and converged fixed/mobile products and services. BT consists principally of five customer-facing lines of business: BT Global Services, BT Business, BT Consumer, 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 QUARTER TO 30 JUNE 2015

Overview

Our key measure of the group's revenue trend, underlying revenue excluding transit, was flat compared with a 1.3% decline last quarter. We delivered continued growth in BT Consumer, with broadband and TV revenue up 7%. BT Wholesale achieved good growth with underlying revenue excluding transit up 5%, largely reflecting the benefit of trading revenue relating to ladder pricing. Openreach revenue was flat, with a strong performance in fibre offset by the impact of regulatory price changes. BT Business underlying revenue excluding transit declined 1%, in line with recent quarters, while in BT Global Services we continued to feel the impact of lower UK revenue, with this partially offset by good growth in AMEA.

Our new BT Sport Europe channel is launching in the next few days and is free for all BT TV customers. We will exclusively feature all 351 UEFA Champions League and UEFA Europa League games in the coming season and will also be launching the first Ultra HD (4K) live sports channel in Europe, BT Sport Ultra HD, supported by a new BT TV Ultra HD set top box.

We are pleased with the progress we have made since re-entering the consumer mobile market in March, with over 100,000 customers joining us within the first three months.

We continue to move forward with our proposed acquisition of EE, which will allow us to create a true digital champion serving the UK. We made our formal submission to the UK's Competition and Markets Authority and they have now progressed directly to a Phase 2 enquiry. We continue to expect merger approval by March 2016.

We have continued with our programme of transforming our costs. Underlying operating costs[1] excluding transit were down 1%. As we highlighted in our fourth quarter results, our EBITDA performance this year will be impacted by no longer benefiting from the sale of redundant copper, higher leaver costs (as last year most were included within specific items), a higher pensions operating charge and our investment in BT Sport Europe. Excluding these, underlying operating costs[1] excluding transit were down 3% in the quarter. Adjusted EBITDA grew 1%, with growth in BT Consumer, Openreach and BT Wholesale partly offset by a decline in BT Global Services.

So far we have passed more than 23m premises with our superfast fibre broadband network, around 80% of the UK. We achieved 389,000 fibre broadband net connections, an increase of 14%. This brings the number of homes and businesses connected to around 4.6m, 20% of those passed. This means we have now achieved our original fibre business case take-up assumption. Given the strong market-wide demand for fibre, we have increased our base-case assumption to 28% penetration, with 30% in Broadband Delivery UK (BDUK) areas, although it will still be many years before we recover our investment. We have 3.2m retail fibre broadband customers, having added 217,000 this quarter. And the UK broadband market[2] grew by 149,000, of which our share was 85,000 or 57%.

Income statement

Reported revenue of £4,360m was flat. This includes £82m of ladder pricing revenue relating to previous years which we have treated as a specific item. Excluding this, adjusted revenue was £4,278m, down £76m or 2% reflecting a £48m negative impact from foreign exchange movements, a £24m reduction in transit revenue and a £4m impact from disposals. Underlying revenue excluding transit was flat.

Adjusted operating costs[3] decreased by £90m to £2,829m. Underlying operating costs[1] excluding transit were down 1%.

Net labour costs were down 6% with each of our lines of business streamlining their operations. This decrease was despite £16m (Q1 2014/15: £2m) of leaver costs and a £7m increase in the defined benefit pensions operating charge. Payments to telecommunications operators were down 6% partly benefiting from foreign exchange movements.

Property, energy, network operating and IT costs were down 5%. BT Sport programme rights charges were £86m (Q1 2014/15: £78m). We will start to recognise UEFA Champions League and UEFA Europa League programme rights charges when the season kicks off in August. Other costs were up £24m or 3%, including our investment in BT Mobile and BT Sport Europe. There was no benefit this quarter from the sale of redundant copper (Q1 2014/15: £14m), which is netted against Other costs.

[1] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals, and is before depreciation and amortisation
[2] DSL and fibre
[3] Before depreciation and amortisation

Adjusted EBITDA of £1,449m was up 1%. Depreciation and amortisation of £628m was down 4% largely due to more efficient delivery of our capital investment programmes in recent years and some assets becoming fully depreciated. Adjusted net finance expense was £132m, down £13m primarily due to lower net debt.

Adjusted profit before tax was £694m, up 9% reflecting the decline in depreciation and amortisation, higher EBITDA and the lower net finance expense. Reported profit before tax (which includes specific items) was £632m, up 16%. The effective tax rate on the profit before specific items was 19.0% (Q1 2014/15: 19.9%).

Adjusted EPS of 6.7p was up 3%. Reported EPS (which includes specific items) was 6.1p, up 9%. These are based on a weighted average number of shares in issue of 8,330m (Q1 2014/15: 7,856m). The average number of shares in issue is 6% higher than a year ago reflecting a major all-employee share option maturity in August last year and the equity placing in February to part fund our planned acquisition of EE. This meant that the growth in earnings per share was below that of our profit for the quarter.

Specific items

Specific items resulted in a net charge after tax of £51m (Q1 2014/15: £70m). This mainly reflects the net interest expense on pensions of £55m (Q1 2014/15: £73m) and £7m of transaction costs relating to our proposed acquisition of EE. We recognised £82m of both transit revenue and costs, being the impact of ladder pricing agreements relating to prior years following a Supreme Court judgment last year. This quarter we incurred no restructuring charges within specific items (Q1 2014/15: £44m). The tax credit on specific items was £11m (Q1 2014/15: £22m).

Capital expenditure

Capital expenditure was £658m (Q1 2014/15: £516m) after £3m (Q1 2014/15: £78m) of net grant funding mainly relating to the BDUK programme. This reflected £103m of gross grant funding directly related to our fibre broadband network build in the quarter which was largely offset by the deferral of £100m of the total grant funding we have accrued to date. This is primarily because we have increased our base-case assumption for take-up and under the terms of the BDUK programme, we have a potential obligation to either re-invest or repay grant funding depending on factors including the level of customer take-up achieved. The deferral accounts for most of the increase in our capital expenditure but is a non-cash item in the quarter that we expect to be reflected in our free cash flow in future financial years. Without the impact of the deferral, our capital expenditure would have been £558m. To date, we have deferred a total of £129m of grant funding.

Free cash flow

Normalised free cash flow[1] was an inflow of £106m, £16m lower than last year reflecting increased cash capital expenditure and the timing of ordinary pension payments, largely offset by lower tax and interest payments, working capital movements and the EBITDA improvement. The net cash cost of specific items was £52m (Q1 2014/15: £80m). Restructuring costs of £51m (Q1 2014/15: £63m), payments relating to historical Ethernet pricing of £16m (following a 2012 Ofcom determination) and EE transaction costs of £16m were partly offset by receipts of £40m relating to ladder pricing revenue. After specific items and a £69m (Q1 2014/15: £19m) cash tax benefit from pension deficit payments, reported free cash flow was an inflow of £123m (Q1 2014/15: £61m).

Net debt and liquidity

Net debt was £5,819m at 30 June 2015, an increase of £700m since 31 March 2015 but £1,260m lower than at 30 June 2014. In the quarter we made £625m of pension deficit payments. We also spent £189m on our share buyback programme ahead of some all-employee share options maturing this summer. We continue to expect to spend around £300m on the programme for the year as a whole.

At 30 June 2015 the group held cash and current investment balances of £2.6bn. We also have a £1.5bn committed facility and a £3.6bn committed acquisition facility to be used for the planned EE transaction, both of which are undrawn. We repaid a US$0.75bn (£0.5bn) bond that matured in the quarter. Debt of £0.8bn matured in July and a further £0.3bn is repayable during the remainder of 2015/16.

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

Pensions

The IAS 19 net pension position at 30 June 2015 was a deficit of £5.8bn net of tax (£7.2bn gross of tax), compared with £6.1bn (£7.6bn gross of tax) at 31 March 2015. The fall in the deficit primarily reflects the £625m deficit payment made in April. Despite this contribution, asset values declined due to market conditions, with this being offset by a reduction in the liabilities due to a higher real discount rate.

	30 June 2015 £bn	31 March 2015 £bn
IAS 19 liabilities – BTPS	**(49.7)**	(50.7)
Assets – BTPS	**42.8**	43.4
Other schemes	**(0.3)**	(0.3)
IAS 19 deficit, gross of tax	**(7.2)**	(7.6)
IAS 19 deficit, net of tax	**(5.8)**	(6.1)
Discount rate (nominal)	3.60%	3.25%
Discount rate (real)	0.44%	0.39%
RPI inflation	3.15%	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

Regulation

In May 2015, we lodged an appeal with the Competition Appeal Tribunal against the design of Ofcom's regulatory margin squeeze test which requires BT Consumer to maintain a 'minimum margin' on newly acquired fibre broadband customers. In June, Ofcom consulted on guidance on how it would assess the 'minimum margin' when we start broadcasting UEFA football. The European Commission had previously raised concerns about our flexibility to recover our BT Sport costs.

In May 2015, Ofcom issued its draft proposals for regulating the business connectivity market for the three years from 1 April 2016. This was followed in June 2015 by draft proposals for the related charge controls. The proposals include the requirement to provide dark fibre services and minimum service levels. We expect Ofcom to issue a final statement early in 2016.

In June 2015, Ofcom issued its provisional conclusion on the amount of interest that we should pay relating to a dispute on historical Ethernet pricing that was originally determined in 2012. Ofcom proposes that we should pay £23m to the disputing parties. We consider we have adequate provision for this and for any similar claims from other parties and therefore there is no impact on our first quarter results. We expect to be required to make payments following Ofcom's final determination, which we expect to be published during the second quarter.

Also in June 2015, Ofcom issued a consultation on the cost attribution methodologies in our Regulatory Financial Statements. Ofcom's provisional view is that some of our attribution methodologies do not reflect the activity that drives the cost. Ofcom estimates that around £260m of reported costs would be removed from regulated markets, with a likely consequential impact on our future price controls. Ofcom has already adjusted for £74m of this within the charge controls for the above business connectivity market consultation. We disagree with Ofcom's findings and will make our views clear in the consultation process.

This month, Ofcom published its first discussion document in its Strategic Review of Digital Communications. The review will focus on incentives for private sector investment, competition policy and scope for deregulation. It will also consider the way Ofcom exercises its powers under the existing UK and European regulatory frameworks. As well as deregulation, we believe Ofcom needs to make long term commitments in its regulation so that communications providers can invest with confidence. We also believe the review offers the potential to create a more level playing field in pay-TV.

2015/16 outlook

Our outlook is unchanged. We continue to expect growth in underlying revenue excluding transit in 2015/16 with modest growth in adjusted EBITDA. Normalised free cash flow is expected to be around £2.8bn. We continue to expect to grow our dividend per share by 10%-15% and to undertake a share buyback of around £300m to help offset the dilutive effect of maturing all-employee share plans. We are targeting a BBB+/Baa1 credit rating over the medium term.

OPERATING REVIEW

BT Global Services

	First quarter to 30 June			
	2015	2014	Change	
	£m	£m	£m	%
Revenue	**1,543**	1,647	(104)	(6)
- underlying excluding transit				(4)
Operating costs	**1,353**	1,434	(81)	(6)
EBITDA	**190**	213	(23)	(11)
Depreciation & amortisation	**127**	140	(13)	(9)
Operating profit	**63**	73	(10)	(14)
Capital expenditure	**86**	106	(20)	(19)
Operating cash flow	**(292)**	(337)	45	13

Revenue declined 6% including a £38m negative impact from foreign exchange movements and a £6m decline in transit revenue. Underlying revenue excluding transit decreased 4% primarily reflecting lower revenue in the UK. This was down 12% mainly reflecting the continued decline in public sector revenue. In the high-growth regions[1] underlying revenue excluding transit was up 10%. We saw strong growth in AMEA which more than offset declines in some Latin American countries where we have changed our portfolio focus, given increased currency uncertainty. In the US and Canada underlying revenue excluding transit declined 1% while in Continental Europe it grew 2%.

Total order intake was £1.2bn in the quarter, up 14%, and £6.6bn on a rolling twelve-month basis, up 4%. We signed a new contract with AIA Group to provide managed network and security services covering 52 sites in 15 countries across Asia Pacific. We signed contracts with Zurich Insurance Group to consolidate, modernise and manage its communications infrastructure. We also renewed and expanded our contract with Debenhams to connect its stores and offices across the UK as well as to provide in-store networks, cyber security and contact centre support.

We announced our vision for the 'Cloud of Clouds', a new generation of cloud services that will help large organisations around the world to connect easily and securely to the applications and data they need, independently of where they are hosted. We launched new services to help companies protect themselves from cyber-attacks. These include Assure Cyber, an advanced security platform for monitoring, detecting and protecting against cyber-threats, and BT Assure Ethical Hacking for Vehicles, a new service to assess the exposure of connected vehicles to cyber-attacks and help develop security solutions.

Operating costs declined 6%. Underlying operating costs excluding transit were down 4% reflecting the lower revenue and the benefit of our cost transformation programmes including a 17% reduction in total labour costs. EBITDA decreased 11%. Excluding foreign exchange movements, underlying EBITDA was down 7%. This was disappointing but is not reflective of our expectation for the full year partly reflecting the phasing of project work on some of our major contracts. The decline in the quarter reflects the impact of our major health programmes moving into the service and maintenance phase after completion of the final substantial deployments in March 2015, and £7m (Q1 2014/15: £nil) of leaver costs. Depreciation and amortisation was down 9% driven by lower depreciation on certain contract assets and the impact of some portfolio and network assets becoming fully depreciated. Operating profit of £63m was down 14%.

Capital expenditure was down 19% due to the timing of project-related expenditure. Operating cash flow was an outflow of £292m reflecting the usual seasonal phasing of working capital.

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

BT Business

	First quarter to 30 June			
	2015	2014	Change	
	£m	£m	£m	%
Revenue	**749**	762	(13)	(2)
- underlying excluding transit				(1)
Operating costs	**509**	522	(13)	(2)
EBITDA	**240**	240	0	0
Depreciation & amortisation	**50**	43	7	16
Operating profit	**190**	197	(7)	(4)
Capital expenditure	**35**	24	11	46
Operating cash flow	**116**	190	(74)	(39)

Revenue was down 2% with underlying revenue excluding transit down 1%, in line with recent quarters.

SME & Corporate voice revenue decreased 6% reflecting a continued fall in business call and line volumes, as customers move to data and VoIP services. The number of business lines declined 7%.

SME & Corporate data and networking revenue increased 3% with continued growth in our networking products and fibre broadband. Business fibre broadband net additions were up 37%. IT services revenue increased 3% with good growth in managed services as we continue to focus our strategy towards this area. Foreign exchange movements had a £10m negative impact on BT Ireland revenue. Its underlying revenue excluding transit was up 6%, driven by growth in fibre broadband in Northern Ireland and in hardware sales and call volumes in the Republic of Ireland.

Order intake in the quarter decreased 6% to £457m and was down 3% to £2,046m on a rolling twelve-month basis. Major deals signed include a contract with Towergate Insurance Limited to provide voice, conferencing, PBX maintenance and hosted PBX services over a five-year term. We also extended our contract with Avis Budget Group for a further three years to provide high-speed internet connections for its branches, voice services and an upgrade to its core Ethernet network. BT Ireland signed a deal with LinkBermuda for data centre services.

Operating costs were down 2%. Underlying operating costs excluding transit were down 1%, in line with the reduction in revenue, and EBITDA was flat for the quarter. Depreciation and amortisation was up £7m and operating profit declined 4%.

Capital expenditure increased £11m due to further investment in BT Fleet vehicles to support Openreach. Operating cash flow was 39% lower reflecting the higher capital expenditure and the timing of working capital movements.

BT Consumer

	First quarter to 30 June			
	2015	2014	Change	
	£m	£m	£m	%
Revenue	**1,074**	1,046	28	3
Operating costs	**820**	808	12	1
EBITDA	**254**	238	16	7
Depreciation & amortisation	**50**	55	(5)	(9)
Operating profit	**204**	183	21	11
Capital expenditure	**52**	39	13	33
Operating cash flow	**211**	227	(16)	(7)

Revenue was up 3%, with a 7% increase in broadband and TV revenue. Calls and lines revenue was broadly flat. Consumer ARPU increased 5% to £419 driven mainly by broadband, including the effect of people moving to fibre.

BT added 85,000 retail broadband customers, representing 57% of the DSL and fibre broadband market net additions. Superfast fibre broadband growth continued with 217,000 retail net additions, taking our customer base to 3.2m. Of our broadband customers, 41% are now on fibre. Our consumer line losses of 59,000 were broadly in line with last quarter. We added more than 100,000 BT Mobile customers in the first three months since re-entering the consumer mobile market in March.

BT Sport average daily audience figures increased 51%. In the quarter we announced that all 351 matches in the coming season from the UEFA Champions League and UEFA Europa League will be free for customers who take BT TV. The BT Sport Pack, including the new home of European football, BT Sport Europe, launches on 1 August. BT Broadband customers who choose to watch on a Sky service, via the BT Sport App or on BT Mobile can get the BT Sport Pack for £5 a month. Our broadband customers can get BT Sport 1 free for a third season. This channel will show all 38 live Barclays Premier League matches as well as the Aviva Premiership and Scottish Professional Football League. Also in August, we will launch the first Ultra HD (4K) live sports channel in Europe, BT Sport Ultra HD, supported by a new BT TV Ultra HD set top box. The channel will be available as part of our top TV package, Entertainment Ultra HD, for £15 a month.

We added 60,000 BT TV customers, taking our TV customer base to 1.2m. This is our best performance since we launched BT Sport, reflecting the improvements we have made to our BT TV offering. This quarter we announced the UK launch of the AMC channel, which will be available exclusively to BT TV customers from August. AMC is a leading US TV network, with a track record of top-rated premium drama series, including 'Breaking Bad' and 'Mad Men'. The multi-year agreement will mark the debut of its UK channel, which will launch with the exclusive UK television premiere of the highly anticipated drama 'Fear the Walking Dead'. We also announced a partnership with HBO Home Entertainment offering BT TV customers the chance to download-to-own critically acclaimed programmes, including 'Game of Thrones'.

Operating costs increased 1% with savings from our cost transformation programmes more than offset by higher costs associated with the growth in revenue and our investment in BT Mobile and BT Sport Europe. EBITDA was up 7% reflecting a continued strong performance across voice and broadband. We expect EBITDA to decline in the second quarter reflecting costs relating to the launch of BT Sport Europe. Depreciation and amortisation decreased 9% and operating profit was up 11%.

Capital expenditure increased 33% reflecting investment in our broadband network capacity and customer service systems. Operating cash flow decreased £16m as the higher capital expenditure and other investments required to launch BT Sport Europe offset the growth in EBITDA.

BT Wholesale

	First quarter to 30 June			
	2015	2014	Change	
	£m	£m	£m	%
Revenue	**530**	525	5	1
- underlying excluding transit				5
Operating costs	**390**	399	(9)	(2)
EBITDA	**140**	126	14	11
Depreciation & amortisation	**58**	59	(1)	(2)
Operating profit	**82**	67	15	22
Capital expenditure	**44**	53	(9)	(17)
Operating cash flow	**117**	11	106	n/m

Revenue was up 1%. Underlying revenue excluding a £19m decline in transit revenue was up 5%. This largely reflects the recognition of around £15m of revenue related to ladder pricing in the quarter. Following the introduction of the new non-geographic call services charging regime on 1 July, we do not expect any further benefit from ladder pricing in our trading revenue.

Managed solutions revenue increased 4% due to higher volumes on some of our major contracts. This was an improvement on the 6% decline last quarter. Calls, lines and circuits revenue was down 2% with declining volumes partly offset by the ladder pricing revenue. Broadband revenue declined £9m or 21% as lines continue to migrate to LLU. We delivered good growth in IP services with revenue up 32%. Ethernet and IP Exchange revenues again showed double-digit growth following our ongoing investment in these growing markets. We had a record quarter for the number of Ethernet orders placed and we continued to see strong growth in IP Exchange minutes, up more than 50%.

Order intake in the quarter was £351m, up 33%. On a rolling twelve-month basis, our order intake was £1,995m, up 20%.

Operating costs decreased 2%. Underlying operating costs excluding transit were up 3% reflecting the increased volumes in managed solutions, partially offset by a 17% reduction in selling and general administration costs as we continue to focus on our cost transformation activities.

EBITDA was up 11% reflecting the ladder pricing revenue. Depreciation and amortisation was down 2% with operating profit up 22%.

Capital expenditure decreased 17%. Operating cash flow improved by £106m largely driven by working capital movements, including benefits from the timing of customer receipts and lower VAT payments, as well as lower capital expenditure.

Openreach

	First quarter to 30 June			
	2015	2014	Change	
	£m	£m	£m	%
Revenue	**1,249**	1,245	4	0
Operating costs	**610**	621	(11)	(2)
EBITDA	**639**	624	15	2
Depreciation & amortisation	**335**	349	(14)	(4)
Operating profit	**304**	275	29	11
Capital expenditure	**402**	258	144	56
Operating cash flow	**270**	298	(28)	(9)

Revenue was flat with regulatory price changes having a negative impact of around £40m, the equivalent of around 3% of our revenue. The impact of regulation was offset by 42% growth in fibre broadband revenue.

We continue to extend the reach of superfast fibre broadband beyond our commercial footprint, as part of the BDUK programme. Overall, our superfast fibre broadband network is available to more than 23m premises, around 80% of the UK.

We achieved 389,000 fibre broadband net connections, an increase of 14%. This brings the number of homes and businesses connected to around 4.6m, 20% of those passed.

The UK broadband market[1] increased by 149,000 connections in the quarter compared with 163,000 in the prior year. The physical line base declined by 6,000 in the quarter but has increased by 196,000 over the past twelve months.

In July 2014 Ofcom introduced minimum service levels for the installation of new lines and for repairs to existing services. We are running ahead of the levels set for the 2015/16 full year, which are more stretching than those for 2014/15. We offer provision appointments within seven days on average, and more than 99% of the time we are within Ofcom's minimum service level of 12 days. Businesses are waiting almost five days less for an Ethernet connection compared with a year ago. More than three-quarters of faults were fixed in the agreed time, compared with two-thirds just over a year ago. And we have now equipped 70% of our service engineers with smartphone apps which are helping them to do their jobs more quickly.

Operating costs were down 2% resulting in EBITDA growing 2%. There was no benefit this quarter from the sale of redundant copper. Depreciation and amortisation was 4% lower with operating profit up 11%.

Capital expenditure was £402m, up £144m or 56%. This was after £99m (Q1 2014/15: £73m) of gross grant funding directly related to our fibre broadband network build in the quarter. This was offset by the deferral of £100m of the total grant funding we have accrued to date. This is primarily because we have increased our base-case assumption for take-up and under the terms of the BDUK programme, we have a potential obligation to either re-invest or repay grant funding depending on factors including the level of customer take-up achieved.

Operating cash flow decreased 9% with the growth in EBITDA more than offset by higher cash capital expenditure.

[1] DSL and fibre

FINANCIAL STATEMENTS

Group income statement
For the first quarter to 30 June 2015

	Before specific items £m	**Specific items £m**	**Total £m**
Revenue	4,278	82	**4,360**
Operating costs	(3,457)	(89)	**(3,546)**
Operating profit	821	(7)	**814**
Finance expense	(138)	(55)	**(193)**
Finance income	6	-	**6**
Net finance expense	(132)	(55)	**(187)**
Share of post tax profits of associates and joint ventures	5	-	**5**
Profit before tax	694	(62)	**632**
Tax	(132)	11	**(121)**
Profit for the period	562	(51)	**511**
Earnings per share			
- basic	6.7p		**6.1p**
- diluted	6.6p		**6.0p**

Group income statement
For the first quarter to 30 June 2014

	Before specific items £m	**Specific items £m**	**Total £m**
Revenue	4,354	-	**4,354**
Operating costs	(3,571)	(44)	**(3,615)**
Operating profit	783	(44)	**739**
Finance expense	(148)	(73)	**(221)**
Finance income	3	-	**3**
Net finance expense	(145)	(73)	**(218)**
Profit on disposal of interest in associate	-	25	**25**
Profit before tax	638	(92)	**546**
Tax	(127)	22	**(105)**
Profit for the period	511	(70)	**441**
Earnings per share			
- basic	6.5p		**5.6p**
- diluted	6.2p		**5.4p**

Group cash flow statement
For the first quarter to 30 June

	First quarter to 30 June	
	2015	2014
	£m	£m
Profit before tax	**632**	546
Share-based payments	**19**	18
Profit on disposal of interest in associate	**-**	(25)
Share of post tax profits of associates and joint ventures	**(5)**	-
Net finance expense	**187**	218
Depreciation and amortisation	**628**	652
Increase in working capital	**(534)**	(552)
Provisions, pensions and other non-cash movements[1]	**(618)**	55
Cash inflow from operations[2]	**309**	912
Tax paid	**(19)**	(114)
Net cash inflow from operating activities	**290**	798
Cash flow from investing activities		
Interest received	**3**	2
Dividends received from associates and joint ventures	**17**	-
Acquisition of joint ventures	**(1)**	(2)
Proceeds on disposal of associates and joint ventures	**-**	25
Purchases of property, plant and equipment and software	**(628)**	(533)
Proceeds on disposal of property, plant and equipment	**2**	3
Net purchases of non-current asset investments	**-**	(2)
Purchases of current asset investments	**(1,479)**	(2,415)
Sale of current asset investments	**3,154**	2,554
Net cash generated from (used in) investing activities	**1,068**	(368)
Cash flow from financing activities		
Interest paid	**(186)**	(207)
Equity dividends paid	**(1)**	(1)
New borrowings	**-**	812
Repayment of borrowings[3]	**(477)**	(631)
Cash flows from derivatives related to net debt	**(144)**	(9)
Net repayment of commercial paper	**-**	(338)
Proceeds on issue of own shares	**2**	4
Repurchase of ordinary share capital	**(189)**	(141)
Net cash used in financing activities	**(995)**	(511)
Net increase (decrease) in cash and cash equivalents	**363**	(81)
Opening cash and cash equivalents	**407**	684
Net increase (decrease) in cash and cash equivalents	**363**	(81)
Effect of exchange rate changes	**(9)**	(5)
Closing cash and cash equivalents[4]	**761**	598

[1] Includes pension deficit payments of £625m (Q1 2014/15: £nil)
[2] Includes cash flows relating to TV rights
[3] Repayment of borrowings includes the impact of hedging and repayment of lease liabilities
[4] Net of bank overdrafts of £24m (Q1 2014/15: £15m)

Group balance sheet

	30 June 2015	30 June 2014	31 March 2015
	£m	£m	£m
Non-current assets			
Intangible assets	**3,066**	3,023	3,170
Property, plant and equipment	**13,557**	13,714	13,505
Derivative financial instruments	**865**	504	1,232
Investments	**48**	36	44
Associates and joint ventures	**14**	19	26
Trade and other receivables	**178**	205	184
Deferred tax assets	**1,466**	1,467	1,559
	19,194	18,968	19,720
Current assets			
Programme rights	**284**	277	118
Inventories	**106**	96	94
Trade and other receivables	**3,318**	3,189	3,140
Current tax receivable	**65**	19	65
Derivative financial instruments	**53**	67	97
Investments	**1,844**	1,636	3,523
Cash and cash equivalents	**785**	613	434
	6,455	5,897	7,471
Current liabilities			
Loans and other borrowings	**1,559**	1,283	1,900
Derivative financial instruments	**201**	137	168
Trade and other payables	**5,065**	5,186	5,276
Current tax liabilities	**220**	313	222
Provisions	**140**	99	142
	7,185	7,018	7,708
Total assets less current liabilities	**18,464**	17,847	19,483
Non-current liabilities			
Loans and other borrowings	**7,253**	8,184	7,868
Derivative financial instruments	**835**	684	927
Retirement benefit obligations	**7,150**	7,199	7,583
Other payables	**1,030**	902	927
Deferred tax liabilities	**927**	821	948
Provisions	**407**	416	422
	17,602	18,206	18,675
Equity			
Ordinary shares	**419**	408	419
Share premium	**1,051**	62	1,051
Deficit	**(608)**	(829)	(662)
Total equity (deficit)	**862**	(359)	808
	18,464	17,847	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 to 30 June 2015 and 30 June 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: our 2015/16 outlook including growth in revenue, EBITDA and free cash flow; growing dividends and continued share buyback; our credit rating; cost transformation; our investment in superfast fibre, fibre broadband penetration, and ultrafast broadband trialling; and our investment in TV and BT Sport, and our BT Sport Europe and BT Sport Ultra HD TV offerings.

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; uncertainties and assumptions relating to the planned EE acquisition, conditions of the acquisition not being satisfied and the 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.