Financial results

28 July 2016

BT GROUP PLC

RESULTS FOR THE FIRST QUARTER TO 30 JUNE 2016

BT Group plc (BT.L) today announced its results for the first quarter to 30 June 2016.

		First quarter to 30 June 2016	
		£m	Change[1]
Revenue[2]		**5,775**	35%
Change in underlying revenue[3] excluding transit on a pro forma basis			0.4%
EBITDA[2]		**1,818**	25%
Profit before tax	- adjusted[2]	**802**	16%
	- reported	**717**	13%
Earnings per share	- adjusted[2]	**6.6p**	(1)%
	- reported	**5.9p**	(3)%
Normalised free cash flow[4]		**448**	£342m
Net debt		**9,579**	£3,760m

Gavin Patterson, Chief Executive, commenting on the results, said:
"We've made a good start to the year, with growth in revenue and strong cash flow. We're on track to deliver our full year outlook.

"Our integration of EE is progressing well, alongside our business reorganisation that took effect on 1 April. EE performed strongly, both financially and commercially, and our customers are seeing the initial benefits of our acquisition with BT Sport now available to EE pay monthly customers. We remain focused on improving customer experience and 100% of EE pay monthly calls are now handled in UK and Ireland contact centres. We've reduced engineer missed appointments by more than a third since last quarter and Openreach is again ahead on all 60 minimum service levels set by Ofcom.

"Fibre broadband is available to well over 25m premises and take-up remains strong. At a retail level, we performed well achieving a 79% share of broadband net adds in the quarter. We were pleased to renew our FA Cup rights during the quarter and we look forward to showing more games from the Premier League at a much better time slot, starting in two weeks. Our customers can also look forward to all the exclusive live action from the UEFA Champions League and UEFA Europa League once again this year.

"Our investment plans remain central to our future and so we will be rolling out further fibre in the coming months, as well as 4G through the Emergency Services Network contract. Our aim is to make these services as universally available as we can, whilst also deploying a new generation of ultrafast broadband. Such investment requires regulatory clarity, particularly in these uncertain times.

"Having listened to Ofcom and industry, we have set out our proposals for greater independence and transparency for Openreach. Our proposals can form the basis for a fair, proportionate and sustainable regulatory settlement and we believe they can also enable Ofcom to bring its Digital Communications Review to a speedier conclusion. We will continue to engage with Ofcom over the coming months."

Key points for the quarter:

- Growth in underlying revenue[3] excluding transit on a pro forma basis up 0.4%
- Underlying EBITDA[3] on a pro forma basis down 2% reflecting our launch of BT Mobile handsets
- 79% share of broadband net additions
- Mobile pay monthly net additions of 244,000, with record low EE churn
- Significant governance changes planned to further increase the independence and transparency of Openreach

[1] The results for the period include EE which we acquired on 29 January 2016. Unless referred to as underlying on a pro forma basis, comparatives do not include EE
[2] Before specific items, which are defined on page 3
[3] Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015. This differs from how we usually adjust for acquisitions as explained on page 3
[4] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

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GROUP RESULTS FOR THE FIRST QUARTER TO 30 JUNE 2016

	First quarter to 30 June		
	2016	2015	Change[1]
	£m	£m	%
Revenue			
- adjusted[2]	**5,775**	4,278	35
- reported	**5,775**	4,360	32
- change in underlying revenue[3] excluding transit on a pro forma basis			0.4
EBITDA			
- adjusted[2]	**1,818**	1,449	25
- reported	**1,785**	1,442	24
Operating profit			
- adjusted[2]	**963**	821	17
- reported	**930**	814	14
Profit before tax			
- adjusted[2]	**802**	694	16
- reported	**717**	632	13
Earnings per share			
- adjusted[2]	**6.6p**	6.7p	(1)
- reported	**5.9p**	6.1p	(3)
Capital expenditure	**777**	658	18
Normalised free cash flow[4]	**448**	106	£342m
Net debt	**9,579**	5,819	£3,760m

Line of business results[2]

	Revenue			EBITDA			Free cash flow[4]		
First quarter to 30 June	**2016**	2015[5]	Change	**2016**	2015[5]	Change	**2016**	2015[5]	Change
	£m	£m	%	**£m**	£m	%	**£m**	£m	%
Consumer	**1,175**	1,076	9	**239**	258	(7)	**298**	215	39
EE	**1,243**	0	n/m	**281**	0	n/m	**187**	0	n/m
Business and Public Sector	**1,169**	990	18	**357**	297	20	**252**	111	127
Global Services	**1,250**	1,196	5	**119**	93	28	**(283)**	(279)	1
Wholesale and Ventures	**518**	578	(10)	**199**	185	8	**134**	111	21
Openreach	**1,252**	1,249	0	**632**	638	(1)	**235**	269	(13)
Other	**3**	3	0	**(9)**	(22)	59	**(375)**	(321)	(17)
Intra-group items	**(835)**	(814)	3	**0**	0	n/m	**0**	0	n/m
Total	**5,775**	4,278	35	**1,818**	1,449	25	**448**	106	323

[1] The results for the period include EE which we acquired on 29 January 2016. Unless referred to as underlying on a pro forma basis, comparatives do not include EE
[2] Before specific items, which are defined on page 3
[3] Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015. This differs from how we usually adjust for acquisitions as explained on page 3
[4] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
[5] Certain line of business results have been restated. See Note 1 to the condensed consolidated financial statements
n/m = not meaningful

Notes:

1. Our 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 operating profit, reported profit before tax, reported net finance expense and reported EPS are the equivalent unadjusted or statutory measures. Reconciliations of reported to adjusted revenue, operating costs and operating profit are set out in the Group income statement. Reconciliations of underlying revenue and operating costs, EBITDA, pro forma EBITDA, net debt and free cash flow to the nearest measures prepared in accordance with IFRS are provided in the Additional information.

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 affected by reductions in mobile termination rates. Given the significance of the EE acquisition to the group, in 2016/17 we are calculating underlying revenue, underlying operating costs and underlying EBITDA on a pro forma basis (see note 3), as though EE had been part of the group from 1 April 2015. This is different from how we usually adjust for acquisitions, and is the basis for our 2016/17 outlook.

3. We have prepared and published pro forma historical financial information for the eight quarters ended 31 March 2016 for the group and by line of business under the new organisational structure, to illustrate the results as though EE had been part of the group from 1 April 2014. The pro forma historical financial information shows EE's historical results adjusted to reflect BT's accounting policies. In the consolidated group total, we've eliminated historical transactions between BT and EE as though they had been intercompany transactions. We have not made any adjustments to reflect the allocation of the purchase price for EE. All deal and acquisition-related costs have been treated as specific items and therefore don't impact the pro forma.

Enquiries

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We will hold a conference call for analysts and investors at 8.30am 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 2016/17 on 27 October 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 180 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. BT consists of six customer-facing lines of business: Consumer, EE, Business and Public Sector, Global Services, Wholesale and Ventures, and Openreach.

For the year ended 31 March 2016, BT Group's reported revenue was £19,042m with reported profit before taxation of £3,029m.

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 2016

Note: The results for the period include EE which we acquired on 29 January 2016. Unless referred to as underlying on a pro forma basis, the comparatives do not include EE as explained in the notes on page 3.

Overview
Our key measure of the group's revenue trend, underlying revenue[1] excluding transit on a pro forma basis, was up 0.4%. Consumer revenue was up 9%, with broadband and TV revenue up 21%. Global Services revenue was up 5% reflecting the benefit of foreign exchange movements, while on an underlying pro forma basis revenue excluding transit was flat. Business and Public Sector underlying revenue[1] excluding transit on a pro forma basis was down 4%, due to the completion of several public sector contracts. Openreach revenue was flat, with a continued strong performance in fibre offsetting the impact of regulatory price changes. Wholesale and Ventures underlying revenue excluding transit on a pro forma basis was down 6%, largely reflecting the benefit last year of around £15m of revenue related to ladder pricing. And we're pleased with the financial performance of EE in its first full quarter since we acquired it in January 2016, with revenues of £1,243m.

Underlying operating costs[1,2] excluding transit on a pro forma basis were up 2%, reflecting additional UEFA rights costs and the launch of BT Mobile handsets. Excluding these, underlying operating costs[1,2] excluding transit on a pro forma basis were down 1%. Adjusted EBITDA grew 25% as a result of the acquisition of EE. Underlying EBITDA[1] on a pro forma basis was down 2%, with growth in Global Services and EE more than offset by declines in Business and Public Sector, Consumer, Wholesale and Ventures, and Openreach. We're continuing to make good progress on our integration of EE.

At a group level our mobile base was 30.3m. We added 244,000 postpaid mobile customers in the quarter, taking the postpaid customer base to 16.2m. The number of prepaid customers reduced by 291,000, in line with industry trends, taking the base to 8.0m. The 4G customer base reached 16.7m. Monthly mobile ARPUs[3] were £27.2 for postpaid customers, and £4.1 for prepaid customers. Churn was a record low at 1.0% for EE postpaid customers reflecting high customer loyalty.

We continue our strategy to reach 95% 4G geographic coverage by the end of 2020. By the end of June we reached more than two-thirds UK geographic coverage (97% 4G population coverage), the largest of any UK operator, providing a major boost for rural communities. We remain on track to help bring fibre broadband to 95% of the country by the end of 2017, with plans to go even further. And we are committed to investing further in ultrafast broadband, with our ambition to bring speeds of above 300Mbps to 12m premises by the end of 2020.

We've passed well over 25m premises with our superfast fibre broadband network. Openreach achieved 333,000 fibre broadband net connections. This brings the number of homes and businesses connected to around 6.2m, 24% of those passed. We have 4.3m retail fibre broadband customers, having added 181,000 this quarter. And the UK broadband market[4] grew by 95,000, of which our share was 76,000 or 79%.

The UK's exit from the EU
While we can't predict what the longer-term impact of the UK's exit from the EU will be, and the weakening of Sterling does impact our financial results, the Board does not expect the results of the EU referendum to have a significant impact on our outlook, which remains unchanged.

Income statement
Both reported and adjusted revenue were £5,775m, up 32% and 35% respectively, mainly as a result of the acquisition of EE. We had a £47m favourable impact from foreign exchange movements, and a £14m reduction in transit revenue. Underlying revenue[1] excluding transit on a pro forma basis was up 0.4%.

Adjusted operating costs[2] increased by £1,355m to £4,812m. Net labour costs of £1,229m were up 17%, reflecting the additional EE employees that joined the group and leaver costs of £40m. Payments to telecommunications operators of £635m were up 28% driven primarily by EE.

Property, energy, network operating and IT costs were up 18%. BT Sport programme rights charges were £163m (Q1 2015/16: £86m) mainly as a result of UEFA rights. Other costs were up £668m or 82%, reflecting EE.

[1] Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015. This differs from how we usually adjust for acquisitions as explained on page 3
[2] Before depreciation and amortisation
[3] Consistent with EE Limited ARPU calculation and excludes Consumer mobile customers, who are included in the Consumer ARPU calculation
[4] DSL and fibre, excluding cable

Adjusted EBITDA of £1,818m was up 25%. Underlying EBITDA[1] on a pro forma basis was down 2%. Depreciation and amortisation of £855m was up 36% largely due to the impact of EE. Adjusted net finance expense was £154m, up £22m primarily due to higher average net debt as a result of our acquisition of EE.

Adjusted profit before tax was £802m, up 16%. Reported profit before tax (which includes specific items) was £717m, up 13%. The effective tax rate on profit before specific items was 18.0% (Q1 2015/16: 19.0%).

Adjusted EPS of 6.6p was down 1%. Reported EPS (which includes specific items) was 5.9p, down 3%. These are based on a weighted average number of shares in issue of 9,933m (Q1 2015/16: 8,330m), up 19% mainly reflecting the additional shares we issued as part of our acquisition of EE.

Specific items

Specific items resulted in a net charge after tax of £70m (Q1 2015/16: £51m). This mainly reflects EE integration costs of £28m (Q1 2015/16: £7m), property rationalisation costs of £5m (Q1 2015/16: £nil) and the net interest expense on pensions of £52m (Q1 2015/16: £55m). Last year we recognised £82m of both transit revenue and costs, with no EBITDA impact, being the effect of ladder pricing agreements relating to previous years. The tax credit on specific items was £15m (Q1 2015/16: £11m).

Capital expenditure

Capital expenditure was £777m (Q1 2015/16: £658m). This consists of gross expenditure of £804m (Q1 2015/16: £661m) which has been reduced by net grant funding of £27m (Q1 2015/16: £3m) mainly relating to our activity on the Broadband Delivery UK (BDUK) programme.

Our base-case assumption for take-up in BDUK areas remains at 33%. 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. While we have recognised gross grant funding of £39m (Q1 2015/16: £103m) in line with network build in the quarter, we have also deferred £12m of the total grant funding to reflect higher take-up levels on a number of contracts. In the first quarter last year we deferred £100m of the total grant funding owing to the step-up in our base-case take up assumption. Without the impact of the deferral, our capital expenditure would have been £765m (Q1 2015/16: £558m) with the increase reflecting the impact of EE.

Free cash flow

Normalised free cash flow[2] was up £342m at £448m. The increase primarily reflects growth in EBITDA and favourable working capital movements due to phasing.

The net cash cost of specific items was £52m (Q1 2015/16: £52m). This includes payments of £19m (Q1 2015/16: £51m) related to restructuring in prior years and EE acquisition and integration related payments of £18m (Q1 2015/16: £16m). We also made £5m of pension deficit payments in relation to the EE pension scheme. Last year also included payments relating to historical Ethernet pricing of £16m (following a 2012 Ofcom determination) and receipts of £40m relating to ladder pricing revenue. After specific items and a £44m (Q1 2015/16: £69m) cash tax benefit from pension deficit payments, reported free cash flow was an inflow of £440m (Q1 2015/16: £123m).

Net debt and liquidity

Net debt was £9,579m at 30 June 2016, a decrease of £266m since 31 March 2016 and £3,760m higher than at 30 June 2015. In the quarter we spent £176m on our share buyback programme ahead of some all-employee share options maturing this summer. We continue to expect to spend around £200m on the programme for the year as a whole.

At 30 June 2016 the group held cash and current investment balances of £2.9bn. We increased our committed facility from £1.5bn to £2.1bn on 30 June, which remains undrawn, and cancelled the EE revolving committed facility of £0.4bn. During the quarter we also repaid bonds of £0.4bn and in July we repaid the £0.2bn outstanding balance on the EE acquisition facility. Term debt of £1.4bn is repayable during the remainder of 2016/17. Short term borrowings also include £0.2bn as the remaining portion of the drawn acquisition facility and £0.6bn collateral for open mark to market positions.

On 9 June 2016, Moody's upgraded our credit rating from Baa2 to Baa1 and on 5 July 2016 S&P upgraded our rating from BBB to BBB+ Stable.

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[2] 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 2016 was a deficit of £6.2bn net of tax (£7.6bn gross of tax), compared with £5.2bn (£6.4bn gross of tax) at 31 March 2016. The increase in the deficit primarily reflects the significant fall in the real discount rate which during the quarter reduced from 0.44% to negative 0.05%, its lowest reported level. This was partly offset by asset growth.

	30 June 2016 **£bn**	31 March 2016 £bn
IAS 19 liabilities – BTPS	(52.8)	(49.1)
Assets – BTPS	45.7	43.1
Other schemes deficit	(0.5)	(0.4)
IAS 19 deficit, gross of tax	(7.6)	(6.4)
IAS 19 deficit, net of tax	(6.2)	(5.2)
Discount rate (nominal)	2.70%	3.30%
Discount rate (real)	(0.05)%	0.44%
RPI inflation	2.75%	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
On 28 April 2016 Ofcom published its Final Statement on its Business Connectivity Market Review (BCMR), Leased Lines Charge Control and Cost Attribution Review. This broadly confirmed Ofcom's proposals set out in its Draft Statement published in March, including:

- the charge controls that apply from 1 May 2016 until 31 March 2019;
- the introduction of minimum service levels for Openreach relating to the installation and repair of Ethernet services; and
- a requirement on Openreach to provide access to its fibre network for providers of high speed services to businesses ('dark fibre') from 1 October 2017.

We disagree with some aspects of Ofcom's BCMR statement and have appealed these points to the Competition Appeals Tribunal (CAT).

We expect Ofcom's Cost Attribution Review assessment also to have an effect on future price controls, including Wholesale Local Access and Narrowband.

In May 2015, BT made an appeal to the CAT on Ofcom's decision to introduce the VULA margin squeeze test. In March 2016 the CAT found that Ofcom was entitled to impose a regulatory margin squeeze test. In June 2016 the Competition and Markets Authority (CMA) published its determination on the remaining pricing grounds. It agreed with BT that Ofcom had made an error in setting the relevant compliance period and determined that this should be extended to six months from the current one month. It dismissed BT's other grounds. On 25 July 2016 the CAT completed its appeals process by issuing directions to Ofcom to amend the VULA margin squeeze test in line with the CMA determination.

In July, following extensive discussions with Ofcom over many months, we confirmed that BT has volunteered significant governance changes to further increase the independence and transparency of Openreach. The main governance changes include: the creation of an Openreach Board as a board committee of BT plc, with an independent Chair and a majority of independent members; the greater delegation of strategic, operational and budgetary responsibilities; and an enhanced consultation process with industry on future investment plans.

On 26 July 2016, Ofcom published for consultation its own proposals for strengthening Openreach's strategic and operational independence. We welcome Ofcom's recognition in their consultation that structural separation would be a disproportionate move. We believe our proposals provide Ofcom with every benefit they're seeking but avoid the extensive, disproportionate costs that would be incurred if, for example, assets had to be transferred into a newly incorporated subsidiary company. Our proposals will also ensure that Openreach continues to benefit from being part of the larger BT group, which helps to reduce the risk it faces when investing in new products.

Openreach is also committed to delivering better service, broader coverage and faster speeds and these changes will enable it to do that.

Our proposals can form the basis for a fair and sustainable regulatory settlement and we believe they can also enable Ofcom to bring its review to a speedier conclusion. We have called on Ofcom to support these proposals as the best way forward for the country and as the foundation for the competition and investment in digital networks that the UK needs. We will continue to engage with Ofcom over the coming months.

Outlook

Our outlook is unchanged.

We continue to expect growth in underlying revenue[1] excluding transit on a pro forma basis in 2016/17. Adjusted EBITDA is expected to be around £7.9bn, after a net investment of around £100m in launching handset offerings to BT mobile customers. Normalised free cash flow is expected to be £3.1bn–£3.2bn. This is after up to £300m of upfront capital expenditure in the Emergency Services Network (ESN) contract, as well as around £100m of EE integration capital expenditure.

For 2017/18, we expect growth in underlying revenue excluding transit and adjusted EBITDA. We also expect to incur capital expenditure of around £100m on the ESN contract and around £100m again on integration. We are confident in our cash flow generation, as a result of the investments we are currently making, the ability of our business to respond to a dynamic industry environment, and ongoing cost transformation and synergy realisation opportunities. As such, we expect to generate normalised free cash flow of more than £3.6bn in 2017/18.

We expect to grow our dividend per share by at least 10% in both 2016/17 and 2017/18. We expect to buy back around £200m of shares in 2016/17 to help counteract the dilutive effect of all-employee share option plans maturing in the year. This is below the £315m buyback we completed in 2015/16 reflecting the lower number of shares that are expected to be required for our share option plans.

[1] Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015. This differs from how we usually adjust for acquisitions as explained on page 3

OPERATING REVIEW

Consumer

	First quarter to 30 June			
	2016	2015[1]	Change	
	£m	£m	£m	%
Revenue	**1,175**	1,076	99	9
Operating costs	**936**	818	118	14
EBITDA	**239**	258	(19)	(7)
Depreciation & amortisation	**52**	50	2	4
Operating profit	**187**	208	(21)	(10)
Capital expenditure	**58**	52	6	12
Operating cash flow	**298**	215	83	39

Revenue was up 9% with a 21% increase in broadband and TV revenue and a 3% increase in calls and lines revenue. Consumer 12-month rolling ARPU increased 8% to £37.8 per month driven by broadband, BT Sport Europe and BT Mobile.

Across BT we added 76,000 retail broadband customers, representing 79% of the DSL and fibre broadband market net additions. Superfast fibre broadband growth continued with 181,000 retail net additions, taking our customer base to 4.3m. Of our broadband customers, 47% are now on fibre.

We expanded our presence in the consumer mobile market by launching new pay monthly BT Mobile handset contracts. Only available direct from BT, the new pay monthly deals offer a range of the latest smartphones with a £5 a month discount for BT Broadband households and a choice of three simple plans.

We have recently boosted our broadband with the launch of the new BT Smart Hub, offering the UK's most powerful wi-fi signal compared to routers from other major broadband providers, whereby when two rooms away, wi-fi is almost twice as fast as the Sky Q Hub. We continue to invest in customer experience and we're on track towards our commitment to answer 90% of Consumer customers' calls from within the UK by the end of March 2017.

BT Sport's average audience figures increased 58% excluding Showcase and digital channels. We've brought our BT Sport content to millions of additional sports fans through a range of digital channels, streaming the Freeview BT Sport Showcase channel on YouTube for both the UEFA Champions League and UEFA Europa League finals. Across TV and social media platforms six million people watched each of these. The figures for Real Madrid's victory over Atlético Madrid in Milan reached 1.8m viewers via our BT Sport app, BT.com and the new BT Sport YouTube channel.

In July EE made BT Sport available to all EE postpaid mobile customers, in time for the start of the new football season. TalkTalk TV homes are also now able to subscribe to BT Sport channels on a rolling monthly contract directly from BT.

We have announced that we've retained the UK rights for the Women's Tennis Association (WTA) for a further three years from January 2017, the German Bundesliga for a further four years from September 2017, and alongside the BBC we have retained the rights to The FA Cup for a further three seasons starting from 2018. BT Sport will broadcast more FA Cup matches than ever, showing an extra live match in Rounds 1-5 of the competition, covering up to 30 matches exclusively live each year. And in July we renewed our rights for UFC.

Across BT we added 59,000 TV customers, growing our total TV base to 1.6m customers.

Operating costs increased 14% due to costs relating to the first full season of our BT Sport Europe channels and the launch of our new pay monthly BT Mobile handset contracts. EBITDA declined 7% in the quarter. Depreciation and amortisation was up 4% and operating profit was down 10%.

Capital expenditure increased 12% and operating cash flow increased 39% as a result of favourable working capital movements relating to the timing of our BT Sport Europe rights payments.

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

EE

	First quarter to 30 June[1]
	2016
	£m
Revenue	**1,243**
Operating costs	**962**
EBITDA	**281**
Depreciation & amortisation	**197**
Operating profit	**84**
Capital expenditure	**150**
Operating cash flow	**187**

Since 1 April 2016, EE as a line of business represents the consumer-facing parts of the acquired EE business focusing on the consumer postpaid and prepaid mobile markets, in addition to the broadband market. EE has around 550 shops across the UK, and manages the EE network, the biggest and fastest 4G network in the UK. The former EE wholesale and business segments were transferred to other lines of business on 1 April 2016.

Revenue for the quarter was £1,243m. This consisted of postpaid mobile revenue of £1,018m, prepaid mobile revenue of £100m, fixed broadband revenue of £63m and equipment sales of £62m. Underlying revenue[2] on a pro forma basis was down 2% and was flat excluding the negative impact of regulation of around £30m.

We continue to work towards our rollout of 4G geographic coverage to 92% of the UK by September 2017 and 95% by the end of 2020. By 30 June EE's 4G coverage reached over two-thirds of the UK's landmass (97% 4G population coverage), the largest of any UK operator. EE continues to be recognised as the UK's leading mobile network, rated first or joint first in the 16 metro areas tested by RootMetrics in the first half of 2016 and the best network for mobile broadband in London by Ofcom in the Smartphone cities annex. Last year EE was selected to run the Emergency Services Network contract, and we've continued to make good progress on the investment necessary to deliver this, including the commissioning of the Rapid Response Vehicle fleet and working with a satellite company to provide backhaul services in remote areas.

We remain focused on improving customer experience, with 100% of EE brand postpaid calls now handled in UK and Ireland contact centres. And we also remain on target to bring all EE brand prepaid and fixed broadband calls back to the UK and Ireland by the end of 2016.

At the end of the quarter the total BT mobile base was 30.3m. We added 244,000 postpaid mobile customers, of which EE contributed almost 50%, taking BT's postpaid customer base to 16.2m. EE postpaid churn was a record low of 1.0% reflecting the high level of customer loyalty. The number of prepaid customers reduced by 291,000, in line with industry trends, taking the base to 8.0m. The 4G customer base reached 16.7m. Monthly mobile ARPUs[3] were £27.2 for postpaid customers, and £4.1 for prepaid customers.

In July EE made BT Sport available to all EE postpaid mobile customers, in time for the start of the new football season. The BT Sport App is now available for free for the first six months and then as a £5 a month add-on.

Operating costs were £962m resulting in EBITDA of £281m. Underlying EBITDA[2] on a pro forma basis was up 11%, reflecting cost efficiencies. Depreciation and amortisation was £197m.

Capital expenditure was £150m. On a pro forma[4] basis, capital expenditure was up 52% due to the Emergency Services Network rollout. Operating cash flow was £187m.

[1] No comparative information is shown as EE was acquired by BT on 29 January 2016. Note that these are not the results of EE Limited; see note 1 to the condensed consolidated financial statements
[2] Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015
[3] Consistent with EE Limited ARPU calculation and excludes Consumer mobile customers, who are included in the Consumer ARPU calculation
[4] Includes EE's historical financial information as though it had been part of the group from 1 April 2015, under the new organisational structure

Business and Public Sector

	First quarter to 30 June			
	2016	2015[1]	Change	
	£m	£m	£m	%
Revenue	**1,169**	990	179	18
- underlying excluding transit on a pro forma basis				(4)
Operating costs	**812**	693	119	17
EBITDA	**357**	297	60	20
Depreciation & amortisation	**86**	64	22	34
Operating profit	**271**	233	38	16
Capital expenditure	**56**	30	26	87
Operating cash flow	**252**	111	141	127

Since 1 April 2016, Business and Public Sector comprises the previous BT Business unit along with EE's business division and the parts of the former BT Global Services line of business that are UK-focused.

Revenue was up 18% mainly reflecting the revenue generated from the SME and corporate customers acquired with EE. Underlying revenue[2] excluding transit on a pro forma basis decreased 4%.

Public Sector and Major Business revenue was down 9% for the quarter, with the inclusion of EE revenue more than offset by the decline in public sector revenue, driven by the flow through of the completion of a number of contracts.

SME revenue increased 50%, with the inclusion of customers formerly served through EE, higher lines ARPU and an increase in revenue from IP lines, partly offset by a decline in traditional switch revenue. Corporate revenue increased 62%, due to the addition of EE customers and continued growth in calls ARPU.

Foreign exchange movements had an £8m positive impact on Republic of Ireland revenue in the quarter, where underlying revenue[2] excluding transit was up 1%.

Order intake in the quarter increased 11% to £652m due to the inclusion of EE orders, and was down 7% to £3,228m on a rolling 12-month basis.

We signed deals including a new pan-London public sector procurement framework agreement, to act as the sole supplier providing a comprehensive range of information and communication technology (ICT) products and services.

Operating costs increased 17% as a result of EE and EBITDA increased 20% for the quarter. Underlying EBITDA[2] on a pro forma basis was down 5%, reflecting the revenue decline in the public sector. Depreciation and amortisation increased by £22m and operating profit grew 16%, driven by the impact of EE.

Capital expenditure increased £26m. On a pro forma[3] basis, this was up £16m. Operating cash flow was £141m higher reflecting the £60m increase in EBITDA and the timing of working capital movements.

[1] Restated, see Note 1 to the condensed consolidated financial statements
[2] Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015
[3] Includes EE's historical financial information as though it had been part of the group from 1 April 2015, under the new organisational structure

Global Services

	First quarter to 30 June			
	2016	2015[1]	Change	
	£m	£m	£m	%
Revenue	**1,250**	1,196	54	5
- underlying excluding transit on a pro forma basis				-
Operating costs	**1,131**	1,103	28	3
EBITDA	**119**	93	26	28
Depreciation & amortisation	**106**	106	-	-
Operating profit	**13**	(13)	26	n/m
Capital expenditure	**91**	81	10	12
Operating cash flow	**(283)**	(279)	(4)	1

Since 1 April 2016, Global Services serves multinational companies (MNCs) and organisations headquartered around the world. The new organisation simplifies how we work and provides a sharper focus on our global customers. Global Services includes EE's global corporate customers, whilst UK Public Sector and UK-focused corporate customers are now served by Business and Public Sector.

Revenue increased 5% including a £39m positive impact from foreign exchange movements, whilst transit revenue was down £1m. Underlying revenue[2] excluding transit on a pro forma basis was flat. Underlying revenue[2] was up 3% in the UK as a result of timing on major contracts, up 1% in AMEA[3] and up 2% in Continental Europe. In the Americas[4] underlying revenue declined 7% reflecting the ongoing impact of a major customer insourcing services.

Total order intake was £1.0bn in the quarter, down 11%, and £5.0bn on a rolling 12-month basis, down 5%. We signed a new contract with Michelin, one of the world's leading tyre manufacturers, for a comprehensive managed network services solution connecting 216 sites in 43 countries. We signed a new network outsourcing contract with International Airlines Group to help the company simplify its IT systems and processes and improve efficiency. We signed a new contract with Alstom, a world leader in transport solutions, to provide unified communications and collaboration services to 30,000 users at 300 locations. And we extended and grew our contract with the Italian Ministry of Economy and Finance to provide network, security and unified communications services to the Italian Public Sector.

During the quarter, we continued to accelerate our Cloud of Clouds portfolio strategy, directly connecting Zscaler access points into our global network so that Global Services customers can benefit from lower latency and improved performance over secure internet connections. We also announced an agreement to integrate Fortinet's enterprise firewalls into our global portfolio of managed security services.

Operating costs increased 3%, primarily reflecting the impact of foreign exchange movements. Underlying operating costs[2] excluding transit on a pro forma basis were broadly flat. EBITDA increased 28% whilst underlying EBITDA[2] on a pro forma basis was up 7%. Depreciation and amortisation was flat. Operating profit was £13m.

Capital expenditure was up 12% due to foreign exchange movements and the timing of project-related expenditure. Operating cash flow was an outflow of £283m reflecting the usual seasonal phasing of working capital.

[1] Restated, see Note 1 to the condensed consolidated financial statements
[2] Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015
[3] Asia Pacific, the Middle East and Africa (AMEA)
[4] United States & Canada and Latin America (Americas)
n/m = not meaningful

Wholesale and Ventures

	First quarter to 30 June			
	2016	2015[1]	Change	
	£m	£m	£m	%
Revenue	**518**	578	(60)	(10)
- underlying excluding transit on a pro forma basis				(6)
Operating costs	**319**	393	(74)	(19)
EBITDA	**199**	185	14	8
Depreciation & amortisation	**76**	66	10	15
Operating profit	**123**	119	4	3
Capital expenditure	**50**	56	(6)	(11)
Operating cash flow	**134**	111	23	21

The new Wholesale and Ventures line of business was formed on 1 April 2016. It is made up of the previous BT Wholesale, a new Mobile division (consisting of EE's wholesale team, including its MVNO operations) and several distinct businesses under a broader Ventures portfolio that includes Payphones, Operator and Directory Services, Tikit, Cables, Supply Chain, Fleet and Redcare.

In the quarter, revenue was down 10% with underlying revenue[2] excluding transit on a pro forma basis down 6%, or down 3% excluding the revenue related to ladder pricing that we recognised last year.

Managed Solutions revenue was down 36% in the quarter as last year benefited from EE revenue which is no longer recognised following its acquisition and reorganisation.

Data and Broadband revenue was down 2%, in part driven by lower Partial Private Circuits revenue. We delivered a strong performance on broadband reflecting growth in fibre and helped by a slowdown in the pace of migration of lines to LLU compared with a year ago. Ethernet continues to grow strongly with a 20% increase in the rental base to over 40,000. While there is strong demand, the market is competitive which is putting pressure on pricing. We continue to work hard to improve our Ethernet customer experience, making it faster and easier to place orders.

Voice was down 28% mainly due to the ladder pricing benefit seen in the first quarter last year, as well as lower volumes as customers switch to newer technologies. Mobile generated £54m of revenue, with most of this coming from the MVNO business. Ventures generated £69m of revenue. The integration of the Ventures businesses is going well and we are focused on delivering the significant revenue opportunities from bringing these operations together.

Order intake was £312m compared with £336m last year, and was £1,397m on a rolling 12-month basis. During the quarter Daisy Communications chose BT as their partnership supplier to develop the market for Hosted Centrex Services. The six-year deal will help us accelerate growth in the hosted market through working in partnership with Daisy. Our Fleet business was voted Green Fleet Supplier of the Year at the International Auto Finance Network Awards, which celebrate excellence and innovation in the automotive leasing and lending industries.

Operating costs decreased 19% and EBITDA increased 8%. Underlying EBITDA[2] on a pro forma basis was down 14%, or down 6% excluding the ladder pricing benefit recognised last year, reflecting a changing revenue mix. Depreciation and amortisation increased 15% and operating profit increased 3%.

Capital expenditure was £50m and operating cash flow was £134m.

[1] Restated, see Note 1 to the condensed consolidated financial statements
[2] Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015

Openreach

	First quarter to 30 June			
	2016	2015[1]	Change	
	£m	£m	£m	%
Revenue	**1,252**	1,249	3	-
Operating costs	**620**	611	9	1
EBITDA	**632**	638	(6)	(1)
Depreciation & amortisation	**332**	335	(3)	(1)
Operating profit	**300**	303	(3)	(1)
Capital expenditure	**337**	402	(65)	(16)
Operating cash flow	**235**	269	(34)	(13)

Revenue was flat with regulatory price reductions having a negative impact of around £50m, the equivalent of around 4% of revenue. The impact of regulation was offset by 33% growth in fibre broadband revenue.

The UK broadband[2] market increased by 95,000 connections in the quarter compared with 149,000 in the prior year and the physical line base reduced by 59,000. Fibre broadband net additions were 333,000. This was 15% lower than last year due to higher levels of migrations between Communication Providers. There are now 6.2m homes and businesses connected to our fibre broadband network, 24% of those passed. Service providers other than BT added 152,000 of the total, almost half of the net connections in the quarter, demonstrating the market-wide demand for fibre.

We have successfully completed the Isle of Wight's multi-million pound rural broadband project with fibre broadband now available to 99% of households and businesses on the island, making it one of the most connected areas in the UK. The new fibre-based network is open to all broadband internet service providers on an equal basis, so both residential and business customers have access to a wide choice of broadband providers.

We've announced the first nine locations to benefit from a new Fibre-to-the-Premises (FTTP) product specifically designed for SMEs, offering ultrafast speeds of up to 1Gbps. The rollout forms part of Openreach's wider ambition to make ultrafast broadband available, via FTTP and G.fast technology, to up to 12m premises by the end of 2020.

This quarter we're ahead on all 60 minimum service levels set by Ofcom, which are more stretching than those for 2015/16.

Operating costs grew 1%, mainly reflecting an increase in leaver costs and our focus on customer service. EBITDA, depreciation and amortisation and operating profit were each down 1%.

Capital expenditure was £337m, down £65m or 16%. This was after gross grant funding of £39m (Q1 2015/16: £99m) directly related to our activity on the Broadband Delivery UK (BDUK) programme build in the quarter. This was offset by the deferral of £12m of the total grant funding (Q1 15/16: £100m). The funding deferral is a non-cash item in the quarter. We continue to expect gross capital expenditure in 2016/17 to be higher than in the previous year.

Operating cash flow reduced 13% largely due to higher cash capital expenditure and lower EBITDA.

[1] Restated, see Note 1 to the condensed consolidated financial statements
[2] DSL and fibre, excluding cable

FINANCIAL STATEMENTS

Group income statement

For the first quarter to 30 June 2016

	Before specific items £m	Specific items £m	Total £m
Revenue	5,775	-	**5,775**
Operating costs	(4,812)	(33)	**(4,845)**
Operating profit	963	(33)	**930**
Finance expense	(158)	(52)	**(210)**
Finance income	4	-	**4**
Net finance expense	(154)	(52)	**(206)**
Share of post tax losses of associates and joint ventures	(7)	-	**(7)**
Profit before tax	802	(85)	**717**
Tax	(144)	15	**(129)**
Profit for the period	658	(70)	**588**
Earnings per share			
- basic	6.6p		**5.9p**
- diluted	6.6p		**5.9p**

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 cash flow statement
For the first quarter to 30 June

	First quarter to 30 June	
	2016	2015
	£m	£m
Profit before tax	**717**	632
Share-based payments	**17**	19
Share of post tax losses (profit) of associates and joint ventures	**7**	(5)
Net finance expense	**206**	187
Depreciation and amortisation	**855**	628
Increase in working capital	**(364)**	(534)
Provisions, pensions and other non-cash movements[1]	**(1)**	(618)
Cash inflows from operations[2]	**1,437**	309
Tax paid	**(103)**	(19)
Net cash inflows from operating activities	**1,334**	290
Cash flows from investing activities		
Interest received	**3**	3
Dividends received from associates and joint ventures	**-**	17
Acquisition of associates and joint ventures	**(4)**	(1)
Purchases of property, plant and equipment and software	**(711)**	(628)
Proceeds on disposal of property, plant and equipment	**-**	2
Purchases of current financial assets	**(2,073)**	(1,479)
Proceeds on disposal of current financial assets	**2,608**	3,154
Net cash (outflows) inflows from investing activities	**(177)**	1,068
Cash flows from financing activities		
Interest paid	**(191)**	(186)
Equity dividends paid	**(3)**	(1)
Proceeds from bank loans and bonds	**2**	-
Repayment of borrowings[3]	**(392)**	(477)
Cash flows from derivatives related to net debt	**(8)**	(144)
Net movement on facility loans	**(438)**	-
Proceeds from issue of own shares	**4**	2
Repurchase of ordinary share capital	**(176)**	(189)
Net cash outflows from financing activities	**(1,202)**	(995)
Net (decrease) increase in cash and cash equivalents	**(45)**	363
Opening cash and cash equivalents	**459**	407
Net (decrease) increase in cash and cash equivalents	**(45)**	363
Effect of exchange rate movements	**25**	(9)
Closing cash and cash equivalents[4]	**439**	761

[1] Includes pension deficit payments of £5m (Q1 2015/16: £625m)
[2] Includes cash flows relating to TV programme rights
[3] Repayment of borrowings includes the impact of hedging and repayment of lease liabilities
[4] Net of bank overdrafts of £48m (Q1 2015/16: £502m)

Group balance sheet

	30 June 2016	30 June 2015[1]	31 March 2016[1]
	£m	£m	£m
Non-current assets			
Intangible assets	**15,374**	3,066	15,436
Property, plant and equipment	**16,118**	13,557	16,010
Derivative financial instruments	**2,051**	865	1,462
Investments	**42**	48	46
Associates and joint ventures	**22**	14	24
Trade and other receivables	**246**	178	233
Deferred tax assets	**1,461**	1,466	1,247
	35,314	19,194	34,458
Current assets			
Programme rights	**388**	284	225
Inventories	**216**	106	189
Trade and other receivables	**4,352**	3,318	4,063
Current tax receivable	**65**	65	65
Derivative financial instruments	**220**	53	177
Investments	**2,400**	1,844	2,918
Cash and cash equivalents	**487**	1,263	996
	8,128	6,933	8,633
Current liabilities			
Loans and other borrowings	**2,919**	2,037	3,736
Derivative financial instruments	**40**	201	48
Trade and other payables	**7,362**	5,065	7,289
Current tax liabilities	**271**	220	271
Provisions	**177**	140	171
	10,769	7,663	11,515
Total assets less current liabilities	**32,673**	18,464	31,576
Non-current liabilities			
Loans and other borrowings	**10,979**	7,253	11,032
Derivative financial instruments	**961**	835	863
Retirement benefit obligations	**7,579**	7,150	6,382
Other payables	**1,185**	1,030	1,105
Deferred tax liabilities	**1,290**	927	1,262
Provisions	**529**	407	552
	22,523	17,602	21,196
Equity			
Ordinary shares	**499**	419	499
Share premium	**1,051**	1,051	1,051
Own shares	**(226)**	(292)	(115)
Merger reserve	**8,422**	998	8,422
Other reserves	**938**	301	690
Retained loss	**(534)**	(1,615)	(167)
Total equity	**10,150**	862	10,380
	32,673	18,464	31,576

[1] Restated to reflect gross position for cash pooling arrangements, see Note 1 to the condensed consolidated financial statements

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 2016 and 30 June 2015 together with the audited balance sheet at 31 March 2016.

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 2016 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 2016 were approved by the Board of Directors on 4 May 2016, published on 19 May 2016, 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 2016. The EE line of business results do not constitute the entirety of EE Limited.

Restatement of segment results

From 1 April 2016, the group has reorganised and the reporting segments have changed. The group now has six customer-facing lines of business:

- BT Consumer remains a separate segment, renamed Consumer;
- EE's consumer division is a separate segment;
- BT Business has become Business and Public Sector and includes the UK corporate and public sector operations from BT Global Services as well as EE's business division;
- BT Global Services has been renamed Global Services and is focused on multinational customers;
- BT Wholesale has become Wholesale and Ventures and includes EE's MVNO operations and certain specialist businesses that were previously in the BT Business segment; and
- Openreach.

In addition, EE's technology team is now the mobile technology unit of our internal service unit, Technology, Service and Operations.

Comparative results for all six customer facing lines of business have been restated to be presented on a consistent basis. There is no impact on the total group results. More details are set out in our related press release published on 29 June 2016.

Restatement of cash pooling arrangements

An IFRIC clarification on IAS 32 Financial Instruments Presentation - Offsetting and cash pooling arrangements was released in April 2016. This clarifies a requirement to gross up cash and overdraft balances associated with notional cash pooling arrangements on the group balance sheet.

As a result the group has restated the comparative balance sheets at 30 June 2015 and 31 March 2016. The impact is to increase cash and cash equivalents and short term loans and other borrowings by £478m at 30 June 2015 and £499m at 31 March 2016. The changes have no impact on net debt or normalised free cash flow.

ADDITIONAL INFORMATION

This additional information does not form part of the condensed consolidated financial statements.

Reconciliation of trends in underlying revenue and underlying operating costs excluding transit

Trends in underlying revenue and underlying operating costs excluding transit are measures which seek to reflect the underlying performance that will contribute to long-term profitable growth. A reconciliation from the trends in reported revenue and reported operating costs, the most directly comparable IFRS measures, to the trends in underlying revenue and underlying operating costs excluding transit, is set out below.

	30 June 2016
	%
Increase in reported revenue	**32.5**
Specific items	**2.5**
Adjustment for EE revenue on a pro forma[1] basis	**(34.0)**
Increase in pro forma[1] adjusted revenue	**1.0**
Transit revenue	**0.3**
Foreign exchange movements	**(0.9)**
Increase in underlying revenue excluding transit on a pro forma basis	**0.4**

	30 June 2016
	%
Increase in reported operating costs	**36.6**
Depreciation and amortisation	**0.1**
Specific items	**3.1**
Adjustment for EE operating costs on a pro forma[1] basis	**(37.8)**
Increase in pro forma[1] adjusted operating costs before depreciation and amortisation	**2.0**
Transit costs	**0.5**
Foreign exchange movements	**(0.8)**
Increase in underlying operating costs excluding transit on a pro forma basis	**1.7**

Reconciliation of earnings before interest, tax, depreciation and amortisation

Earnings before interest, tax, depreciation and amortisation (EBITDA) is not a measure defined under IFRS, but is a key indicator used by management to assess operational performance. A reconciliation of reported profit before tax to adjusted EBITDA and pro forma EBITDA is provided below.

	First quarter to 30 June	
	2016	2015
	£m	£m
Reported profit before tax	**717**	632
Share of post tax losses (profits) of associates and joint ventures	**7**	(5)
Net finance expense	**206**	187
Operating profit	**930**	814
Depreciation and amortisation	**855**	628
Reported EBITDA	**1,785**	1,442
Specific items	**33**	7
Adjusted EBITDA	**1,818**	1,449
Adjustment for EE EBITDA on a pro forma[1] basis	**-**	389
Adjusted pro forma EBITDA	**1,818**	1,838

[1] Includes EE's historical financial information as though it had been part of the group from 1 April 2015

Net debt

Net debt is not a measure defined under IFRS but is a key indicator used by management to assess operational performance. A reconciliation from loans and other borrowings, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures, to net debt, is set out below.

	First quarter to 30 June	
	2016	2015[1]
	£m	£m
Loans and other borrowings	**13,898**	9,290
Cash and cash equivalents	**(487)**	(1,263)
Current asset investments	**(2,400)**	(1,844)
	11,011	6,183
Adjustments:		
To re-translate currency denominated balances at swapped rates where hedged	**(1,119)**	(84)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	**(313)**	(280)
Net debt	**9,579**	5,819

Free cash flow

Free cash flow is not a measure defined under IFRS but is a key indicator used by management to assess operational performance. A reconciliation from cash generated from operations, the most directly comparable IFRS measure, to reported free cash flow and normalised free cash flow, is set out below.

	First quarter to 30 June	
	2016	2015
	£m	£m
Cash generated from operations	**1,437**	309
Tax paid	**(103)**	(19)
Net cash inflows from operating activities	**1,334**	290
Add back pension deficit payments	**5**	625
Included in cash flows from investing activities		
Net purchase of property, plant and equipment and software	**(711)**	(626)
Interest received	**3**	3
Dividends received from associates and joint ventures	**-**	17
Included in cash flows from financing activities		
Interest paid	**(191)**	(186)
Reported free cash flow	**440**	123
Net cash flow from specific items	**52**	52
Cash tax benefit of pension deficit payments	**(44)**	(69)
Normalised free cash flow	**448**	106

[1] Restated to reflect gross position for cash pooling arrangements, see Note 1 to the condensed consolidated financial statements

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 outlook for 2016/17 and 2017/18 including growth in revenue, EBITDA, free cash flow and capital expenditure; dividend growth and share buyback; the benefits of acquiring EE, EE integration and cost synergies; our fibre rollout and take-up; and our investment in next generation ultrafast broadband via FTTP and G.fast technology.

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 whether as a result of the uncertainties arising from the UK's exit from the EU or otherwise; 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; external threats to cyber security, data or resilience; political and geo-political risks; the anticipated benefits and advantages of new technologies, products and services not being realised; the timing of entry and profitability of BT in certain 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 anticipated benefits and synergies of the EE integration not being delivered; 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.