Financial Results

11 February 2010

BT GROUP PLC

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2009

BT Group plc (BT.L) today announces its results for the third quarter and nine months to 31 December 2009. BT has also made a separate announcement today in relation to the triennial funding valuation of the BT Pension Scheme.

Key points:

- Revenue of £5,198m, down 4%
- Adjusted EBITDA[1] of £1,444m, up 11% largely due to improvement in BT Global Services
- Total underlying costs[2] down 13% in the quarter, savings of £1.6bn achieved in the nine months
- Adjusted earnings per share[1] of 4.6p, up 53%, reported earnings per share up 188%
- Improvement in free cash flow[3] to £305m inflow compared with an outflow of £32m last year
- Pension deficit payment of £525m made in the quarter
- Net debt[4] down nearly £1bn compared with last year to £10.1bn
- Expect to deliver adjusted EBITDA[1] of around £5.7bn and free cash flow[3] of around £1.7bn for the full year

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

"These results show that we are making progress. There is still a lot more to be done but our commitment to improved customer service and cost transformation is starting to deliver results and freeing up resources to invest in our future. In particular, we are one of Europe's largest investors in super-fast fibre-based broadband and this will bring huge benefits to our customers and the UK."

[1] Before specific items, leaver costs, net interest on pensions and BT Global Services contract and financial review charges of £336m in Q3 2008/09
[2] Underlying operating costs and capital expenditure, excluding BT Global Services contract and financial review charges of £336m in Q3 2008/09
[3] Before pension deficit payment of £525m but after the cash flows related to specific items
[4] Net debt is reconciled in Note 7

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RESULTS FOR THE THIRD QUARTER AND NINE MONTHS TO 31 DECEMBER 2009

Group results

	Third quarter to 31 December			Nine months to 31 December		
	2009	2008[1]	Change	**2009**	2008[1]	Change
	£m	£m	%	**£m**	£m	%
Revenue	**5,198**	5,437	(4)	**15,555**[2]	15,917	(2)
EBITDA						
- adjusted[3]	**1,444**	1,301	11	**4,251**	4,125	3
- reported	**1,227**	932	32	**3,821**	3,582	7
Operating profit						
- adjusted[3]	**690**	578	19	**2,000**	2,026	(1)
- reported	**473**	209	126	**1,570**	1,483	6
Profit before tax						
- adjusted[4]	**466**	335	39	**1,354**	1,344	1
- reported	**209**	81	158	**756**	1,072	(29)
Earnings per share						
- adjusted[4]	**4.6p**	3.0p	53	**13.3p**	13.0p	2
- reported	**2.3p**	0.8p	188	**10.6p**	10.6p	-
Capital expenditure	**554**	762	(27)	**1,671**	2,330	(28)
Free cash flow[5]	**305**	(32)	n/m	**888**	(397)	n/m
Net debt				**10,112**	11,060	(9)

Line of business results

	Revenue		Change	EBITDA[3]		Change
	2009	2008[1]		**2009**	2008[1]	
Third quarter to 31 December	**£m**	£m	%	**£m**	£m	%
BT Global Services	**2,118**	2,194	(3)	**123**	7	n/m
BT Retail	**2,061**	2,180	(5)	**464**	434	7
BT Wholesale	**1,092**	1,183	(8)	**321**	321	-
Openreach	**1,292**	1,329	(3)	**513**	533	(4)
Other	**7**	10	n/m	**23**	6	n/m
Intra-group items	**(1,372)**	(1,459)	6	-	-	-
Total	**5,198**	5,437	(4)	**1,444**	1,301	11

[1] Restated - see Note 1 for details
[2] Before specific items
[3] Before specific items, leaver costs and BT Global Services contract and financial review charges of £336m in Q3 2008/09
[4] Before specific items, leaver costs, net interest on pensions and BT Global Services contract and financial review charges of £336m in Q3 2008/09
[5] Before pension deficit payment of £525m in Q3 2009/10 (Q3 2008/09: £nil) but after the cash flows related to specific items
n/m defined as "not meaningful"

Notes:
Unless otherwise stated, any reference to earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, and operating costs is measured before specific items, leaver costs and BT Global Services contract and financial review charges of £336m in Q3 2008/09. In addition, adjusted profit before tax and adjusted earnings per share (EPS) are also shown before net interest on pensions due to the volatile nature of this item. Reported EBITDA, reported operating profit, reported profit before tax and reported EPS are the equivalent unadjusted or statutory measures.

Underlying revenue, underlying operating costs, underlying EBITDA and underlying capital expenditure refer to the measure excluding foreign exchange rate movements and acquisitions. Underlying revenue and operating costs are also stated before specific items, leaver costs, depreciation and amortisation and BT Global Services contract and financial review charges of £336m in Q3 2008/09.

Unless otherwise stated, the change in results on a percentage basis or in absolute terms is year on year.

The commentary focuses on the trading results before specific items, leaver costs and BT Global Services contract and financial review charges. This is consistent with the way that financial performance is measured by management and we believe allows a meaningful analysis to be made of the trading results of the group. Specific items are defined in Note 4.

The income statement, cash flow statement and balance sheet are provided on pages 10 to 14. Reconciliations of reported profit before tax to adjusted EBITDA, reported profit before tax to adjusted profit before tax and reported EPS to adjusted EPS are provided in Notes 8, 9 and 10, respectively. A reconciliation of free cash flow and net debt are provided in Notes 6 and 7, respectively.

The line of business commentaries also discuss operating cash flow before specific items and leaver costs. Operating cash flow is defined as EBITDA less direct and allocated capital expenditure (net of capital accrual movements), working capital movements and movements in provisions and other non-cash items.

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

Results for the fourth quarter and full year 2009/10 are expected to be announced on 13 May 2010.

About BT

BT is one of the world's leading providers of communications solutions and services operating in 170 countries. Its principal activities include the provision of networked IT services globally; local, national and international telecommunications services to our customers for use at home, at work and on the move; broadband and internet products and services and converged fixed/mobile products and services. BT consists principally of four lines of business: BT Global Services, BT Retail, BT Wholesale and Openreach.

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

For more information, visit www.btplc.com

BT Group plc
RESULTS FOR THE THIRD QUARTER TO 31 DECEMBER 2009

GROUP RESULTS

Operating results overview

Revenue was down 4% at £5,198m reflecting the challenging market conditions and the trends seen in previous quarters. Excluding favourable foreign exchange movements of £57m, underlying revenue decreased by 5%. Adjusted EBITDA increased by 11% to £1,444m largely due to the improvement in BT Global Services. The sequential improvement in BT Global Services has continued with EBITDA of £123m, up £28m compared with the second quarter. Excluding BT Global Services, adjusted EBITDA for the rest of the group increased by 2% reflecting continued progress in the delivery of cost savings. Foreign exchange movements had a £5m negative impact on EBITDA. There were no acquisitions in the past 12 months and therefore there is no impact from acquisitions on the underlying results in the quarter. All prior year adjusted and underlying numbers are stated before BT Global Services contract and financial review charges of £336m.

In total, operating costs and capital expenditure reduced by £702m in the quarter, on an underlying basis this was a reduction of £645m, down 13%. In the nine months to 31 December 2009, total underlying operating costs and capital expenditure reduced by £1,577m, a reduction of 11%.

Underlying group operating costs, excluding depreciation and leaver costs, reduced by 10%, primarily due to reductions in total labour costs and the delivery of other cost savings by all lines of business. Total labour costs, on an underlying basis, decreased by 18% reflecting reductions in direct and indirect labour and lower pension charges. Other group operating costs, on an underlying basis, decreased by 5%. Leaver costs were £58m (Q3 2008/09: £33m).

Capital expenditure reduced by £208m to £554m reflecting the steps previously taken to improve procurement and the efficiency and management of capital expenditure, as well as the timing of certain capital projects. Capital expenditure in the fourth quarter is expected to be higher than this quarter and the prior year largely due to a higher level of activity on investment programmes.

Depreciation and amortisation increased by 4% to £754m reflecting the impact of higher value and shorter lived software, Ethernet and ADSL2+ assets being brought into use during the year.

Net finance expense

Net finance expense was £292m, an increase of £112m, due to the notional non-cash net pension interest expense under IAS 19 which increased by £148m. Net finance expense before pension interest reduced by £36m reflecting the lower average net debt.

Tax

The effective tax rate on the profit before specific items for the nine months was 22.2% (nine months to 31 December 2008: 24.3%), compared with the UK statutory rate of 28%, reflecting the utilisation of tax losses and continued focus on tax efficiency within the group.

Specific items

Specific items are defined in Note 4. Specific items in the quarter were a net charge after tax of £86m (Q3 2008/09: net credit after tax of £36m). BT Global Services restructuring charges of £159m were recognised during the quarter (Q3 2008/09: £nil). This includes people and transformation costs and a gross charge of £127m for the renegotiation of certain supply contracts with Tech Mahindra as part of the rationalisation of procurement channels (net charge of £62m after tax and share of associate).

Earnings per share

Adjusted EPS increased by 53% to 4.6p due to the higher operating profit and lower net finance expense. Reported EPS was 2.3p (Q3 2008/09: 0.8p). A reconciliation from reported EPS to adjusted EPS is provided in Note 10.

Cash flow

Free cash flow before the pension deficit payment of £525m was an inflow of £305m, an increase of £337m compared with last year, reflecting improved working capital and substantially lower capital expenditure. Free cash flow is reconciled in Note 6. Net cash inflow from our operating activities before the pension deficit payment in the quarter was £1,165m (Q3 2008/09: £1,060m). Net cash outflow for the purchase of property, plant and equipment and software was £548m (Q3 2008/09: £789m).

Net debt and liquidity

Net debt was £10,112m at 31 December 2009 (31 December 2008: £11,060m). Net debt is reconciled in Note 7. At 31 December 2009 we had undrawn committed facilities of £2.4bn and cash and investments of £1.0bn which provide us with a strong liquidity and funding position.

Pensions

The IAS 19 net pension position at 31 December 2009 was a deficit of £6.4bn net of tax (£8.8bn gross of tax), showing an improvement compared with a net deficit of £6.8bn (£9.4bn gross of tax) at 30 September 2009. At 31 March 2009 the deficit was £2.9bn net of tax (£4.0bn gross of tax). The market value of the BT Pension Scheme assets has increased by £4.5bn since 31 March 2009 to £33.8bn at 31 December 2009. However, the value of the liabilities has increased by £9.4bn as a result of reductions in bond yields and increases in inflation expectations. The liability calculation is based on an AA bond yield of 5.65% (31 March 2009: 6.85%) and future inflation expectations of 3.5% (31 March 2009: 2.9%). This does not reflect a change in the underlying pension obligations, but rather a change in market rates for AA bonds and inflation expectations.

Based on the market conditions at 31 December 2009 we would expect the pension service charge for 2010/11 to be higher than 2009/10, with the net pension interest expense reducing and therefore partly offsetting this. The actual charge for 2010/11 will depend on the market conditions at 31 March 2010. This will not affect the cash payments into the pension scheme.

Outlook

We expect adjusted EBITDA for the full year to outturn at around £5.7bn. We now expect capital expenditure to be around £2.5bn for the full year (previous outlook: around £2.6bn), even taking into account the increased capital expenditure in the fourth quarter. As a result, we expect to generate free cash flow (before pension deficit payment of £525m but after the cash flows related to specific items) of around £1.7bn this year.

OPERATING REVIEW
BT Global Services

	Third quarter to 31 December				Nine months to 31 December	
	2009	2008[1]	Change		**2009**	2008[1]
	£m	£m	£m	%	**£m**	£m
Revenue	**2,118**	2,194	(76)	(3)	**6,221**	6,283
Net operating costs [2]	**1,995**	2,187	(192)	(9)	**5,941**	5,989
EBITDA before contract & financial review charges	**123**	7	116	n/m	**280**	294
Contract & financial review charges	**-**	(336)	336	n/m	**-**	(336)
EBITDA	**123**	(329)	452	n/m	**280**	(42)
Depreciation & amortisation	**194**	182	12	7	**571**	534
Operating loss	**(71)**	(511)	440	86	**(291)**	(576)
Capital expenditure	**120**	208	(88)	(42)	**382**	666
Operating cash flow	**(31)**	(267)	236	88	**(584)**	(1,126)

[1] Restated for the impact of customer account moves and internal trading model changes
[2] Net of other operating income

Revenue
As anticipated, BT Global Services revenue decreased by 3% to £2,118m. Excluding favourable foreign exchange movements, underlying revenue decreased by 5%. This decline reflects a continuation of trends seen throughout the year including the impact of mobile termination rate reductions, lower wholesale call volumes in Continental Europe, declines in UK calls and lines revenue and the economic conditions.

Total order intake was £1.6bn compared with £1.4bn in each of the first and second quarters, leading to a rolling 12 month order intake of £6.9bn.

In the quarter we signed several new contracts or extensions with leading organisations across our key sectors and geographies. These included: Commerzbank AG, to deliver managed services to their trading floors around the world; Nomura International plc, to provide dealing room technologies and market data infrastructure to its new London headquarters; National Australia Group Europe Ltd, for the provision of a hosted IP contact centre; Sasol Group Services (Pty) Ltd, South Africa’s leading integrated energy and chemical company; and ENI S.p.a, a leading Italian integrated energy company. In partnership with Capgemini UK plc, we won a contract to provide green IT and communication services to the Environment Agency in England and Wales.

Operating results
We have continued to make progress with our cost saving initiatives delivering an 11% decrease in underlying operating costs. This compares with a decrease of 8% in the second quarter and an increase of 1% in the first quarter. This reflects the benefit of improvements in procurement, processes and customer service. However, the main driver of cost savings was total labour cost.

As a result of our progress in addressing the cost base, adjusted EBITDA increased to £123m compared with £7m in the prior year and £95m in the second quarter. Depreciation and amortisation increased by 7% to £194m due to the adverse impact of foreign exchange movements and the timing of higher value and shorter lived software assets being brought into use in prior quarters. Overall this contributed to an operating loss of £71m.

Capital expenditure reduced by £88m due to the timing of capital expenditure across certain of our larger customer contracts, more stringent investment return criteria, better programme delivery and improved procurement.

Operating cash outflow improved by £236m largely due to the substantially higher EBITDA, lower capital expenditure and improved cash collections. In the nine months to 31 December 2009, operating cash outflow was £584m compared with an outflow of £1,126m in the prior year.

BT Retail

	Third quarter to 31 December				Nine months to 31 December	
	2009	2008[1]	Change		**2009**	2008[1]
	£m	£m	£m	%	**£m**	£m
Revenue	**2,061**	2,180	(119)	(5)	**6,233**	6,514
Net operating costs [2]	**1,597**	1,746	(149)	(9)	**4,818**	5,274
EBITDA	**464**	434	30	7	**1,415**	1,240
Depreciation & amortisation	**117**	113	4	4	**353**	315
Operating profit	**347**	321	26	8	**1,062**	925
Capital expenditure	**90**	110	(20)	(18)	**253**	354
Operating cash flow	**399**	285	114	40	**1,215**	707

[1] Restated for the impact of customer account moves and internal trading model changes
[2] Net of other operating income

Revenue
BT Retail revenue declined by 5% to £2,061m and by 6% on an underlying basis largely due to a continued reduction in our calls and lines revenue. We continue to experience challenging market conditions particularly in the business market where the level of insolvencies has remained high. These factors contributed to a 4% and 8% decline in our Consumer and Business revenue, respectively.

Annual consumer ARPU increased to £301, up £5 over the previous quarter due in part to increasing take-up of multi product offers by our customers. In the maturing broadband market BT's retail market share of the DSL and LLU installed base remained at 35%. Net additions were 102,000 in the quarter taking total broadband customers to over 5m. BT's retail share of net additions was 42%.

The BT Vision customer base grew to 451,000 at 31 December 2009 with the average number of views per month per subscriber increasing more than 40% over the same quarter last year to 37.

In December Project Canvas achieved a significant milestone with the BBC Trust giving provisional approval for BBC involvement. Project Canvas is the joint venture between BT, the UK public service broadcasters and other partners to develop and promote a new open standard for TV, combining broadcast and broadband television delivery. Project Canvas would positively transform the UK TV market and we welcome this step forward. In the next few months Ofcom is expected to finalise its statement on whether Sky will be required to sell wholesale access to premium channels such as Sky Sports and Sky Movies at regulated prices. This will be beneficial for both competition and the consumer as it will provide greater choice, cheaper prices and new innovative products.

In the quarter BT Ireland signed a contract with the Northern Ireland government to extend the roll out of fibre-based broadband beyond our existing commercial deployment plans through a public-private sector investment.

Our public WiFi business continues to grow strongly through the expansion of our network to around a million hotspots. This network is on track to exceed a billion WiFi minutes in the year to 31 March 2010, representing a more than doubling of traffic compared with last year.

We recently launched our new super-fast broadband service, BT Infinity, which uses fibre optic technology to offer download speeds of up to 40Mbps at prices starting from £19.99 per month.

Operating results
Net operating costs reduced by 9% to £1,597m and as a result EBITDA increased by 7% to £464m. Depreciation and amortisation increased by 4% to £117m due to higher value and shorter lived software assets being brought into use. Overall this contributed to operating profit of £347m, up 8%.

Operating cash flow was £114m higher due to improved cash collections from customers, higher EBITDA and lower capital expenditure.

BT Wholesale

	Third quarter to 31 December				Nine months to 31 December	
	2009	2008[1]	Change		**2009**	2008[1]
	£m	£m	£m	%	**£m**	£m
Revenue	**1,092**	1,183	(91)	(8)	**3,359**	3,507
Net operating costs [2]	**771**	862	(91)	(11)	**2,390**	2,538
EBITDA	**321**	321	-	-	**969**	969
Depreciation & amortisation	**172**	178	(6)	(3)	**513**	520
Operating profit	**149**	143	6	4	**456**	449
Capital expenditure	**71**	99	(28)	(28)	**211**	338
Operating cash flow	**208**	110	98	89	**512**	473

[1] Restated for the impact of customer account moves and internal trading model changes.
[2] Net of other operating income.

Revenue
BT Wholesale revenue declined by 8% to £1,092m largely as a result of the impact of mobile termination rate reductions (£66m), which have a negligible effect on EBITDA, and continued reductions in conveyance and international direct dial revenues. These declines were partially offset by volume growth of £22m in managed network services revenue which was £180m in the quarter and now represents 23% of external revenue (Q3 2008/09: 19%).

We continued to sign new managed services contracts in the quarter including a new agreement with O_2 to consolidate its UK fixed and mobile networks onto BT's all IP core network. The proportion of our external revenue under long term contract is now 41% (Q3 2008/09: 34%) securing long term profitable revenue streams.

Operating results
The decline in revenue was offset by a reduction in net operating costs of 11% and, as a result, EBITDA remained flat at £321m. Depreciation and amortisation decreased by 3% to £172m contributing to a 4% increase in operating profit.

Capital expenditure was £28m lower largely through improved procurement terms. Operating cash flow improved by £98m primarily due to the timing of payments to other communication providers (CPs) and lower capital expenditure.

Wholesale Broadband Connect, our next generation copper-based broadband service offering speeds of up to 24Mbps is now available to more than 50% of homes and businesses in the UK and we remain on track to reach around 75% availability by Spring 2011. We recently launched our new super-fast fibre-based broadband service for our wholesale customers. The footprint for our wholesale Ethernet service has more than trebled to 780 nodes at 31 December 2009 compared with the prior year, further extending our market leading Ethernet footprint.

Openreach

	Third quarter to 31 December				Nine months to 31 December	
	2009	2008	Change		**2009**	2008
	£m	£m	£m	%	**£m**	£m
External revenue	**315**	265	50	19	**894**	744
Revenue from other BT lines of business	**977**	1,064	(87)	(8)	**2,989**	3,194
Revenue	**1,292**	1,329	(37)	(3)	**3,883**	3,938
Net operating costs[1]	**779**	796	(17)	(2)	**2,360**	2,425
EBITDA	**513**	533	(20)	(4)	**1,523**	1,513
Depreciation & amortisation	**215**	189	26	14	**639**	562
Operating profit	**298**	344	(46)	(13)	**884**	951
Capital expenditure	**226**	246	(20)	(8)	**629**	703
Operating cash flow	**333**	286	47	16	**877**	819

[1] Net of other operating income

Revenue

Total revenue decreased by 3% to £1,292m reflecting significantly lower Ethernet prices for the industry, and a reduced WLR base due to the depressed housing market not being fully offset by growth in the LLU and Ethernet customer base. External revenue increased by 19% reflecting the continued migration of end customers to other CPs WLR and LLU rentals.

Operating results

Net operating costs reduced by 2% to £779m. Other operating income increased due to higher market prices from sales of redundant copper.

EBITDA was at a similar level to last quarter but year on year declined by £20m as the revenue decline was not wholly offset by cost reductions. Depreciation and amortisation increased by £26m to £215m primarily due to shorter lived and higher value software assets being brought into use during the year. As a result, operating profit decreased by 13% to £298m.

Capital expenditure reduced by 8% to £226m in the quarter due to our efficiency initiatives and lower connection activity because of the depressed housing market.

We have commenced one of Europe's largest investment programmes in super-fast fibre-based broadband and aim to complete the roll out to connect 10m premises through a mixture of Fibre to the Cabinet and Fibre to the Premises by Summer 2012.

Operating cash flow increased by £47m reflecting lower capital expenditure, as well as higher cash receipts due to the timing of customer receipts around the quarter end.

FINANCIAL STATEMENTS

Group income statement
For the third quarter to 31 December 2009

	Notes	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	5,198	-	**5,198**
Other operating income		80	-	**80**
Operating costs	3	(4,646)	(159)	**(4,805)**
Operating profit		632	(159)	**473**
Finance expense		(782)	-	**(782)**
Finance income		490	-	**490**
Net finance expense	5	(292)	-	**(292)**
Share of post tax profits (losses) of associates and joint ventures		(1)	29	**28**
Profit before tax		339	(130)	**209**
Tax		(75)	44	**(31)**
Profit for the period		264	(86)	**178**
Attributable to:				
Equity shareholders		264	(86)	**178**
Minority interests		-	-	**-**
Earnings per share	10			
- basic		3.4p		**2.3p**
- diluted		3.3p		**2.2p**

Group income statement
For the third quarter to 31 December 2008

	Notes	Before specific items £m	Specific items (Note 4) £m	Total[1] £m
Revenue	2	5,437	-	**5,437**
Other operating income		71	-	**71**
Operating costs	3	(5,299)	-	**(5,299)**
Operating profit		209	-	**209**
Finance expense		(843)	-	**(843)**
Finance income		663	-	**663**
Net finance expense	5	(180)	-	**(180)**
Share of post tax profits of associates and joint ventures		16	36	**52**
Profit before tax		45	36	**81**
Tax		(19)	-	**(19)**
Profit for the period		26	36	**62**
Attributable to:				
Equity shareholders		26	36	**62**
Minority interests		-	-	**-**
Earnings per share	10			
- basic		0.3p		**0.8p**
- diluted		0.3p		**0.8p**

[1]Restated - see Note 1 for details

Group income statement
For the nine months to 31 December 2009

	Notes	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	15,555	(52)	**15,503**
Other operating income		252	-	**252**
Operating costs	3	(13,931)	(254)	**(14,185)**
Operating profit		1,876	(306)	**1,570**
Finance expense		(2,327)	-	**(2,327)**
Finance income		1,457	11	**1,468**
Net finance expense	5	(870)	11	**(859)**
Share of post tax profits of associates and joint ventures		16	29	**45**
Profit before tax		1,022	(266)	**756**
Tax		(227)	291	**64**
Profit for the period		795	25	**820**
Attributable to:				
Equity shareholders		794	25	**819**
Minority interests		1	-	**1**
Earnings per share	10			
- basic		10.3p		**10.6p**
- diluted		10.0p		**10.3p**

Group income statement
For the nine months to 31 December 2008

	Notes	Before specific items £m	Specific items (Note 4) £m	Total[1] £m
Revenue	2	15,917	-	**15,917**
Other operating income		268	-	**268**
Operating costs	3	(14,637)	(65)	**(14,702)**
Operating profit		1,548	(65)	**1,483**
Finance expense		(2,460)	-	**(2,460)**
Finance income		1,991	-	**1,991**
Net finance expense	5	(469)	-	**(469)**
Share of post tax profits of associates and joint ventures		22	36	**58**
Profit before tax		1,101	(29)	**1,072**
Tax		(268)	18	**(250)**
Profit for the period		833	(11)	**822**
Attributable to:				
Equity shareholders		832	(11)	**821**
Minority interests		1	-	**1**
Earnings per share	10			
- basic		10.8p		**10.6p**
- diluted		10.7p		**10.6p**

[1]Restated - see Note 1 for details

Group statement of comprehensive income
For the third quarter and nine months to 31 December

	Third quarter to 31 December		Nine months to 31 December	
	2009	2008[1]	**2009**	2008[1]
	£m	£m	**£m**	£m
Profit for the period	**178**	62	**820**	822
Other comprehensive (loss) income				
Actuarial movements on defined benefit pension schemes	**124**	(3,349)	**(5,273)**	(5,389)
Exchange (losses) gains on translation of foreign operations	**(59)**	731	**(231)**	768
Fair value movements on cash flow hedges				
- fair value (losses) gains	**(306)**	2,719	**(1,359)**	3,005
- recycled and reported in net profit	**168**	(2,002)	**803**	(2,349)
- reclassified and reported in non current assets	**(2)**	-	**-**	-
Movement in assets available for sale reserve	**(1)**	(1)	**4**	3
Tax on items taken directly to equity	**(136)**	718	**1,505**	1,251
Other comprehensive (loss) for the period, net of tax	**(212)**	(1,184)	**(4,551)**	(2,711)
Total comprehensive (loss) for the period	**(34)**	(1,122)	**(3,731)**	(1,889)
Attributable to:				
Equity shareholders	**(34)**	(1,122)	**(3,732)**	(1,890)
Minority interests	**-**	-	**1**	1
	(34)	(1,122)	**(3,731)**	(1,889)

[1]Restated - see Note 1 for details

Group statement of changes in equity
For the nine months to 31 December 2009

	Share capital	**(Deficit) Reserves**	**Minority interests**	**Total equity**
	£m	**£m**	**£m**	**£m**
At 1 April 2009	408	(266)	27	169
Total comprehensive loss for the period	-	(3,732)	1	(3,73:
Share-based payment	-	57	-	57
Net movement on treasury shares	-	1	-	1
Dividends on ordinary shares	-	(85)	-	(85)
Disposals	-	-	(5)	(5)
At 31 December 2009	**408**	**(4,025)**	**23**	**(3,59**

[1]Restated - see Note 1 for details

Group cash flow statement
For the third quarter and nine months to 31 December

	Third quarter to 31 December		Nine months to 31 December	
	2009	2008[1]	**2009**	2008[1]
	£m	£m	**£m**	£m
Profit before tax	**209**	81	**756**	1,072
Depreciation and amortisation	**754**	723	**2,251**	2,099
Net finance expense	**292**	180	**859**	469
Associates and joint ventures	**(28)**	(52)	**(45)**	(58)
Share-based payment	**18**	35	**54**	106
Decrease (increase) in working capital	**45**	130	**(654)**	(1,000)
Provisions, pensions and other non cash movements[2]	**(606)**	74	**(697)**	95
Cash generated from operations	**684**	1,171	**2,524**	2,783
Tax (paid) received	**(44)**	(111)	**367**	(113)
Net cash inflow from operating activities	**640**	1,060	**2,891**	2,670
Cash flow from investing activities				
Interest received	**2**	6	**15**	18
Dividends received from associates and joint ventures	**2**	2	**3**	5
Proceeds on disposal of property, plant and equipment	**9**	7	**27**	28
Acquisition of subsidiaries, net of cash acquired	**-**	(29)	**(13)**	(216)
Purchases of property, plant and equipment and computer software	**(557)**	(796)	**(1,808)**	(2,365)
Purchases of current financial assets	**(2,077)**	(1,578)	**(6,740)**	(3,773)
Sale of current financial assets	**2,263**	970	**6,165**	3,391
Net cash used in investing activities	**(358)**	(1,418)	**(2,351)**	(2,912)
Cash flow from financing activities				
Interest paid	**(316)**	(311)	**(765)**	(753)
Equity dividends paid	**(1)**	(19)	**(87)**	(806)
Dividends paid to minority interests	-	-	**-**	(1)
Repayments of borrowings	**(17)**	(76)	**(307)**	(694)
Repayment of finance lease liabilities	**(14)**	-	**(14)**	(9)
New bank loans and bonds	**-**	1	**522**	795
Net (repayment) proceeds on commercial paper	**(6)**	498	**(697)**	1,278
Repurchase of ordinary shares	**-**	-	**-**	(334)
Proceeds on issue of treasury shares	**-**	-	**1**	125
Net cash (used) received in financing activities	**(354)**	93	**(1,347)**	(399)
Effects of exchange rate changes	**(4)**	62	**(16)**	67
Net decrease in cash and cash equivalents	**(76)**	(203)	**(823)**	(574)
Cash and cash equivalents at beginning of period	**368**	803	**1,115**	1,174
Cash and cash equivalents, net of bank overdrafts, at end of period	**292**	600	**292**	600
Free cash flow (Note 6)	**305**	(32)	**888**	(397)

[1] Restated - see note 1 for details
[2] Includes pension deficit payment of £525m in Q3 2009/10 (Q3 2008/09: £nil)

Group balance sheet

	31 December 2009 £m	31 December[1] 2008 £m	31 March[1] 2009 £m
Non current assets			
Intangible assets	**3,585**	4,190	3,788
Property, plant and equipment	**14,795**	15,609	15,405
Derivative financial instruments	**1,153**	2,834	2,542
Investments	**57**	54	55
Associates and joint ventures	**177**	123	132
Trade and other receivables	**412**	996	322
Deferred tax assets	**2,463**	675	1,103
	22,642	24,481	23,347
Current assets			
Inventories	**117**	141	121
Trade and other receivables	**3,840**	5,087	4,185
Derivative financial instruments	**233**	366	158
Investments	**729**	837	163
Cash and cash equivalents	**305**	792	1,300
	5,224	7,223	5,927
Total assets	**27,866**	31,704	29,274
Current liabilities			
Loans and other borrowings	**2,114**	2,564	1,542
Derivative financial instruments	**136**	64	56
Trade and other payables	**6,190**	7,112	7,215
Current tax liabilities	**274**	367	1
Provisions	**158**	66	254
	8,872	10,173	9,068
Total assets less current liabilities	**18,994**	21,531	20,206
Non current liabilities			
Loans and other borrowings	**10,332**	12,510	12,365
Derivative financial instruments	**531**	800	711
Other payables	**834**	782	794
Deferred tax liabilities	**1,605**	1,948	1,728
Retirement benefit obligations	**8,833**	2,413	3,973
Provisions	**453**	298	466
	22,588	18,751	20,037
Capital and reserves			
Called up share capital	**408**	408	408
(Deficit) reserves	**(4,025)**	2,337	(266)
Total equity shareholders' (deficit) funds	**(3,617)**	2,745	142
Minority interests	**23**	35	27
Total (deficit) equity	**(3,594)**	2,780	169
	18,994	21,531	20,206

[1]Restated - see Note 1 for details

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

These condensed consolidated financial statements ("the financial statements") comprise the financial results of BT Group plc for the quarters and nine months to 31 December 2009 and 2008, together with the audited balance sheet at 31 March 2009. The financial statements for the quarter and nine months to 31 December 2009 have been reviewed by the auditors and their review opinion is on page 20.

Except as described below, the financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2009 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. Statutory accounts for the year to 31 March 2009 were approved by the Board of Directors on 13 May 2009, published on 27 May 2009 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 237 of the Companies Act 1985.

Restatements – impact of new accounting standards

The amendment to IFRS 2, *Share-Based Payment – Vesting Conditions and Cancellations*, which was adopted with effect from 1 April 2009, requires retrospective adoption and hence comparative periods have been restated. This has resulted in a reduction in EBITDA of £35m for Q3 2008/09 and £73m for the nine months to 31 December 2008. The restatements have been included in the 'Other' segment. In addition, the adoption of IAS 1 (revised), *Presentation of Financial Statements* has resulted in a change in accounting policy applied to the classification of derivatives which have not been allocated to a specific hedge relationship. Where such derivatives, previously reported as current assets and current liabilities, have a maturity of and are expected to be held for more than 12 months after the reporting period, they will now be presented as non current assets or liabilities. Prior period balance sheets have been reclassified to be on a consistent basis. The effect of all these restatements was disclosed in Note 14 to the financial statements for the first quarter to 30 June 2009.

Restatements – internal charges

We have also restated the line of business 2008/09 income statement comparatives for the impact of customer account moves between BT Global Services and BT Retail and other internal trading model changes effective from 1 April 2009. These restatements have no impact on total group results. The effect of these restatements was disclosed in Note 14 to the financial statements for the first quarter to 30 June 2009.

2 Operating results – by line of business

	External revenue[1] £m	Internal revenue £m	Group revenue £m	EBITDA[1] £m	Group operating profit (loss)[1] £m
Third quarter to 31 December 2009					
BT Global Services	**2,118**	**-**	**2,118**	**123**	**(71)**
BT Retail	**1,972**	**89**	**2,061**	**464**	**347**
BT Wholesale	**786**	**306**	**1,092**	**321**	**149**
Openreach	**315**	**977**	**1,292**	**513**	**298**
Other	**7**	**-**	**7**	**23**	**(33)**
Intra-group items [2]	**-**	**(1,372)**	**(1,372)**	**-**	**-**
Total	**5,198**	**-**	**5,198**	**1,444**	**690**
Third quarter to 31 December 2008[3]					
BT Global Services	2,194	-	2,194	7	(175)
BT Retail	2,092	88	2,180	434	321
BT Wholesale	876	307	1,183	321	143
Openreach	265	1,064	1,329	533	344
Other	10	-	10	6	(55)
Intra-group items [2]	-	(1,459)	(1,459)	-	-
Total	5,437	-	5,437	1,301	578
Nine months to 31 December 2009					
BT Global Services	**6,221**	**-**	**6,221**	**280**	**(291)**
BT Retail	**5,971**	**262**	**6,233**	**1,415**	**1,062**
BT Wholesale	**2,439**	**920**	**3,359**	**969**	**456**
Openreach	**894**	**2,989**	**3,883**	**1,523**	**884**
Other	**30**	**-**	**30**	**64**	**(111)**
Intra-group items [2]	**-**	**(4,171)**	**(4,171)**	**-**	**-**
Total	**15,555**	**-**	**15,555**	**4,251**	**2,000**
Nine months to 31 December 2008[3]					
BT Global Services	6,283	-	6,283	294	(240)
BT Retail	6,276	238	6,514	1,240	925
BT Wholesale	2,585	922	3,507	969	449
Openreach	744	3,194	3,938	1,513	951
Other	29	-	29	109	(59)
Intra-group items [2]	-	(4,354)	(4,354)	-	-
Total	15,917	-	15,917	4,125	2,026

[1] Before specific items, leaver costs and BT Global Services contract and financial review charges of £336m in Q3 2008/09
[2] Elimination of intra-group revenue, which is included in the total revenue of the originating business
[3] Restated – see Note 1 for details

3 Operating costs

	Third quarter to 31 December		Nine months to 31 December	
	2009	2008[1,2]	**2009**	2008[1,2]
	£m	£m	**£m**	£m
Staff costs before leaver costs	**1,214**	1,352	**3,68**	4,082
Leaver costs	**58**	33	**124**	142
Staff costs	**1,272**	1,385	**3,81**	4,224
Own work capitalised	**(143)**	(192)	**(420)**	(505)
Net staff costs	**1,129**	1,193	**3,39**	3,719
Depreciation and amortisation	**754**	723	**2,25**	2,099
Payments to telecommunication operators	**1,066**	1,094	**3,15**	3,174
Other operating costs	**1,697**	2,289	**5,13**	5,645
Total before specific items	**4,646**	5,299	**13,93**	14,637
Specific items (Note 4)	**159**	-	**254**	65
Total	**4,805**	5,299	**14,18**	14,702

[1] Restated – see Note 1 for details
[2] Includes BT Global Services contract and financial review charges of £336m

4 Specific items

BT separately identifies and discloses any significant one-off or unusual items (termed “specific items”). This is consistent with the way that financial performance is measured by management and we believe assists in providing a meaningful analysis of the trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies.

	Third quarter to 31 December		Nine months to 31 December	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Revenue provision for regulatory settlement	**-**	-	**52**	-
BT Global Services restructuring charges	**159**	-	**249**	-
Group transformation and reorganisation costs	-	-	**-**	65
Costs associated with settlement of prior tax years	-	-	**5**	-
Specific operating costs	**159**	-	**254**	65
Reassessment of carrying value of associate	**-**	(36)	**-**	(36)
Impact of renegotiated supply contracts on associate	**(29)**	-	**(29)**	-
Interest income on settlement of prior tax years	**-**	-	**(11)**	-
Net specific items charge (credit) before tax	**130**	(36)	**266**	29
Tax credit on specific items	**(44)**	-	**(76)**	(18)
Tax credit in respect of settlement of prior tax years	**-**	-	**(215)**	-
Net specific items charge (credit) after tax	**86**	(36)	**(25)**	11

5 Net finance expense

	Third quarter to 31 December		Nine months to 31 December	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Net finance expense before pensions[1,2]	**223**	259	**651**	704
Net interest expense (income) on pensions	**69**	(79)	**208**	(235)
Net finance expense	**292**	180	**859**	469

[1] Finance expense in the third quarter and nine months to 31 December 2009 includes a £6m and £5m net charge (Q3 2008/09: £11m, nine months to 31 December 2008: £8m net charge), respectively, arising from the re-measurement of financial instruments on a fair value basis which under IAS 39, are not in hedging relationships

[2] Includes £11m of interest income on settlement of prior tax years in the nine months to 31 December 2009 (nine months to 31 December 2008: £nil) which has been disclosed as a specific item (Note 4)

6 Free cash flow

Free cash flow is not a measure recognised under IFRS but is a key indicator used by management in order to assess operational performance.

	Third quarter to 31 December		Nine months to 31 December	
	2009	2008	**2009**	2008
	£m	£m	**£m**	£m
Cash generated from operations	**684**	1,171	**2,524**	2,783
Tax (paid) received	**(44)**	(111)	**367**	(113)
Net cash inflow from operating activities	**640**	1,060	**2,891**	2,670
Add back: Pension deficit payment	**525**	-	**525**	-
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	**(548)**	(789)	**(1,781)**	(2,337)
Dividends received from associates	**2**	2	**3**	5
Interest received	**2**	6	**15**	18
Included in cash flows from financing activities				
Interest paid	**(316)**	(311)	**(765)**	(753)
Free cash flow	**305**	(32)	**888**	(397)

7 Net debt

Net debt is a non-GAAP measure since it is not defined in IFRS but it is a key indicator used by management in order to assess operational performance.

	At 31 December	
	2009	2008
	£m	£m
Loans and other borrowings[1]	**12,446**	15,074
Cash and cash equivalents	**(305)**	(792)
Investments	**(729)**	(837)
	11,412	13,445
Adjustments:		
To re-translate currency denominated balances at swapped rates where hedged	**(1,010)**	(2,070)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	**(290)**	(315)
Net debt	**10,112**	11,060

[1] Includes overdrafts of £13m at 31 December 2009 (31 December 2008: £191m)

8 Earnings before interest, taxation, depreciation and amortisation (EBITDA)

Earnings before interest, taxation, depreciation and amortisation (EBITDA) before specific items and leaver costs is not a measure recognised under IFRS, but it is a key indicator used by management in order to assess operational performance. A reconciliation of reported profit before tax to adjusted EBITDA is provided below.

	Third quarter to 31 December		Nine months to 31 December	
	2009	2008[1]	**2009**	2008[1]
	£m	£m	**£m**	£m
Reported profit before tax	**209**	81	**756**	1,072
Share of post tax profits of associates and joint ventures	**(28)**	(52)	**(45)**	(58)
Net finance expense (Note 5)	**292**	180	**859**	469
Operating profit	**473**	209	**1,570**	1,483
Depreciation and amortisation (Note 3)	**754**	723	**2,251**	2,099
Reported EBITDA	**1,227**	932	**3,821**	3,582
Leaver costs (Note 3)	**58**	33	**124**	142
Specific items (Note 4)	**159**	-	**306**	65
EBITDA before specific items and leaver costs	**1,444**	965	**4,251**	3,789
BT Global Services contract and financial review charges	**-**	336	**-**	336
Adjusted EBITDA	**1,444**	1,301	**4,251**	4,125

[1] Restated – see Note 1 for details

9 Reconciliation of adjusted profit before tax

	Third quarter to 31 December		Nine months to 31 December	
	2009	2008[1]	**2009**	2008[1]
	£m	£m	**£m**	£m
Reported profit before tax	**209**	81	**756**	1,072
Leaver costs (Note 3)	**58**	33	**124**	142
Specific items (Note 4)	**130**	(36)	**266**	29
Net interest expense (income) on pensions (Note 5)	**69**	(79)	**208**	(235)
BT Global Services contract and financial review charges	**-**	336	**-**	336
Adjusted profit before tax	**466**	335	**1,354**	1,344

[1] Restated – see Note 1 for details

10 Reconciliation of adjusted earnings per share

	Third quarter to 31 December		Nine months to 31 December	
	2009	2008[1]	**2009**	2008[1]
	pence per share		pence per share	
Reported basic earnings per share	**2.3**	0.8	**10.6**	10.6
Per share impact of:				
- Leaver costs (Note 3)	**0.5**	0.3	**1.1**	1.3
- Specific items (Note 4)	**1.1**	(0.5)	**(0.3)**	0.2
- Net interest expense (income) on pensions (Note 5)	**0.7**	(0.7)	**1.9**	(2.2)
- BT Global Services contract and financial review charges	**-**	3.1	**-**	3.1
Adjusted earnings per share	**4.6**	3.0	**13.3**	13.0

[1] Restated – see Note 1 for details

Independent review report to BT Group plc on the interim financial information

Introduction

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the third quarter and nine months to 31 December 2009, which comprises the group income statement, group statement of comprehensive income, group statement of changes in equity, group cash flow statement, group balance sheet and related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with Note 1 "Basis of preparation and accounting policies".

As disclosed in Note 1 the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The accounting policies that have been used to prepare the condensed set of financial statements included in this interim financial report are the same as those used for the preparation of the consolidated financial statements for the year ended 31 March 2009 except as described in Note 1.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the third quarter and nine months to 31 December 2009 is not prepared, in all material respects, in accordance with Note 1 of the interim financial report "Basis of preparation and accounting policies".

PricewaterhouseCoopers LLP
Chartered Accountants
London
10 February 2010

Notes:
The maintenance and integrity of the group's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial information since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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: revenue, EBITDA and free cash flow; pension service charge and net interest expense; total underlying capital expenditure and operating cost reductions; the group's liquidity and funding position; continued progress in BT Global Services delivery of cost savings; BT Wholesale long term revenue streams; and super-fast fibre-based broadband and our fibre access network roll out.

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

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT 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; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services not being realised; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the BT Global Services' revised operating model and restructuring plan not being achieved; completion of the pension fund actuarial valuation; 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.