Financial results

BT Group plc

Results for the first quarter to 30 June 2017

28 July 2017

BT Group plc (BT.L) today announced its results for the first quarter to 30 June 2017.

Key developments for the quarter

Strategic:

- Consultation launched by Openreach on building the investment case for a large-scale FTTP network
- Consumer and EE divisions will be brought together to drive converged products and accelerate transformation
- Forthcoming spectrum auction will allow BT to bid for high frequency spectrum facilitating upgrades to 5G technology
- Continued improvement in customer experience metrics, Group Customer Perception and Right First Time
- BT won exclusive live rights for European elite rugby cup competitions for 2018/19 – 2021/22

Operational:

- Restructuring programme on track. Plans announced to streamline our Italian business
- Mobile postpaid net subscriber additions of 210,000, with churn remaining low at 1.1%
- Openreach fibre connections remain high at 437,000, with fibre broadband now passing 26.8m UK households
- Retail broadband net additions represent 53% market share, with fibre net additions of 170,000
- Consumer revenue generating units per customer increased 4% to 2.00. Monthly mobile ARPU was £20.4, up 9%

Financial:

- Settlement of warranty claims with Deutsche Telekom and Orange under EE acquisition agreement, arising from the previously reported issues in Italy, with specific item charge of £225m
- Reported revenue up 1% and underlying[1] revenue up 0.2% driven by our consumer facing businesses
- Adjusted[1] EBITDA decreased 2% due to increased pension costs, business rates, sport programme rights and our investment in customer experience
- Net cash inflow from operating activities of £1,315m down £19m, and normalised free cash flow[1] of £556m up £108m due to working capital phasing
- Outlook maintained with share buyback of £200m in the quarter

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

"BT has delivered an encouraging performance in the first quarter of the year. We've made good progress in our key areas of strategic focus: deliver great customer experience, invest for growth, and transform our costs. In particular, I'd highlight the growth achieved by our consumer facing businesses, helped by mobile.

"BT, with Openreach, is well placed to support the roll out of FTTP in the UK, and we're consulting with Ofcom, Government and other communications providers to build the investment case to achieve this outcome.

"Our new Consumer business will operate our three distinct brands; BT, EE and Plusnet; to leverage our position as the largest and only fully converged player in the market, spanning fixed and mobile networks, consumer products and services as well as content.

"We will continue to simplify and streamline the business and rationalise our costs as demonstrated by our ongoing performance transformation programme. Our businesses are leaders in their core segments and as we drive the business forward I am confident in the outlook for our Company."

	First quarter to 30 June 2017	
	£m	Change
Reported measures		
Revenue	**5,837**	1%
Profit before tax	**418**	(42)%
Basic earnings per share	**2.9p**	(51)%
Net cash inflow from operating activities	**1,315**	£(19)m
Adjusted measures		
Change in underlying[1] revenue excluding transit		0.2%
Adjusted[1] EBITDA	**1,785**	(2)%
Change in underlying[1] EBITDA		(2.5)%
Adjusted[1] profit before tax	**791**	(1)%
Adjusted[1] basic earnings per share	**6.3p**	(5)%
Normalised free cash flow[1]	**556**	£108m
Net debt[1]	**8,810**	£(762)m[2]

[1] See Glossary on page 2

[2] Revised, see note 1 to the condensed consolidated financial statements

This announcement contains inside information.

The person responsible for making this announcement is Dan Fitz, BT's Company Secretary.

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

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

Group results for the first quarter to 30 June 2017

	First quarter to 30 June		
	2017	2016	Change
	£m	£m	%
Revenue			
- reported	**5,837**	5,775	1
- adjusted[1]	**5,849**	5,775	1
- change in underlying[1] revenue excluding transit			0.2
EBITDA			
- reported	**1,467**	1,785	(18)
- adjusted[1]	**1,785**	1,818	(2)
- change in underlying[1] EBITDA			(2.5)
Operating profit			
- reported	**602**	930	(35)
- adjusted[1]	**920**	963	(4)
Profit before tax			
- reported	**418**	717	(42)
- adjusted[1]	**791**	802	(1)
Basic earnings per share			
- reported	**2.9p**	5.9p	(51)
- adjusted[1]	**6.3p**	6.6p	(5)
Capital expenditure	**835**	777	7
Normalised free cash flow[1]	**556**	448	24
Net debt[1]	**8,810**	9,572[2]	£(762)m

Line of business results

	Adjusted[1] revenue			Adjusted[1] EBITDA			Normalised free cash flow[1]		
First quarter to 30 June	**2017**	2016	Change	**2017**	2016	Change	**2017**	2016	Change
	£m	£m	%	**£m**	£m	%	**£m**	£m	%
Consumer	**1,255**	1,175	7	**233**	239	(3)	**255**	298	(14)
EE	**1,291**	1,243	4	**335**	281	19	**166**	187	(11)
Business and Public Sector	**1,128**	1,169	(4)	**336**	357	(6)	**209**	252	(17)
Global Services	**1,244**	1,250	-	**73**	119	(39)	**(178)**	(283)	37
Wholesale and Ventures	**492**	518	(5)	**174**	199	(13)	**100**	134	(25)
Openreach	**1,267**	1,252	1	**614**	632	(3)	**303**	235	29
Other	**4**	3	33	**20**	(9)	n/m	**(299)**	(375)	20
Intra-group items	**(832)**	(835)	-	**-**	-	-	**-**	-	-
Total	**5,849**	5,775	1	**1,785**	1,818	(2)	**556**	448	24

[1] See Glossary
[2] Revised, see note 1 to the condensed consolidated financial statements
n/m = not meaningful

Glossary of alternative performance measures

Adjusted	Before specific items
Free cash flow	Cash generated from operations (after capital expenditure) excluding pension deficit payments and after interest, tax and non-current asset investments
Net debt	Loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Currency denominated balances within net debt are translated to Sterling at swapped rates where hedged
Normalised free cash flow	Free cash flow before specific items and the cash tax benefit of pension deficit payments
Specific items	Items that in management's judgement need to be disclosed separately by virtue of their size, nature or incidence. Further information is provided in note 1 on page 21
Underlying	Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals. Further information is provided in note 2 on page 21

Reconciliations to the most directly comparable IFRS measures are in Additional Information on page 21. Our commentary focuses on the trading results on an adjusted basis. 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. Further information is provided in note 1 on page 21.

Overview of the first quarter to 30 June 2017

OVERVIEW

Our first quarter has seen growth in reported revenue of 1% driven mainly by our consumer facing lines of business and favourable impact from foreign exchange movements. We continue to see headwinds in our UK Public Sector business, albeit at a lower rate than Q4 2016/17, and ongoing challenging conditions in our international corporate markets. Our main measure of the group's revenue trend, underlying[1] revenue excluding transit, was up 0.2%. Adjusted[1] EBITDA of £1,785m was down 2% mainly as a result of increased pension costs, business rates, sport programme rights and increased customer investment. Reported profit before tax for the year is down 42% due principally to the £373m specific items charge in the quarter. Net cash inflow from operating activities was down £19m at £1,315m. Normalised free cash flow[1] was £556m, up 24% mainly as a result of favourable working capital movements partially offset by higher capital expenditure. During the quarter we raised debt of £2.0bn, refinancing at a lower cost than our maturing debt.

We remain focused on delivering our key strategic priorities to deliver great customer experience, invest for growth and transform our costs.

In line with these strategic priorities, we have today announced the bringing together of our Consumer and EE businesses to leverage our position as the largest and only fully converged player in the market, bringing new opportunities and benefits to customers and to accelerate transformation of the business. Marc Allera, currently CEO of EE, has been appointed to lead the business.

The Consumer and EE businesses will operate separately for the rest of this year with management coming together from September to develop the integration plans for the business.

In addition, Cathryn Ross, currently Chief Executive of Ofwat, has been appointed as the new Director of Regulatory Affairs to lead our regulatory strategy and relationship with Ofcom.

Both Marc and Cathryn will report directly to Gavin Patterson.

After almost four years as CEO of BT Consumer and thirteen years in BT, John Petter has announced he is stepping down to pursue roles outside the Group. John has made a major contribution to the business and as CEO of BT Consumer has overseen our rapid expansion in the consumer market-place.

Sean Williams, Chief Strategy Officer, BT Group, will also be leaving BT to pursue new opportunities outside the group. Over recent years, Sean has helped BT make strategic progress in several key areas including ensuring we secured regulatory approval for both the EE acquisition and the settlement with Ofcom over the future of Openreach.

For further information, please see separate release dated 28 July 2017.

Operational update

Mobility

Our mobile base is now 29.8m. We added 210,000 postpaid mobile customers, taking the postpaid customer base to 17.0m. The number of prepaid customers reduced by 385,000, in line with industry trends, taking the base to 6.5m. Our 4G customer base reached 19.0m.

Monthly mobile ARPUs were £20.4, up 9%, reflecting an average of £26.6 for postpaid customers, up 2%, and £4.6 for prepaid customers, up 12%. Our postpaid churn remains low at 1.1%, demonstrating sustained customer loyalty and reflecting EE's continuing recognition as the UK's leading mobile network in independent surveys.

Broadband

Openreach achieved 437,000 fibre broadband net connections and service providers other than BT accounted for 60% of these, demonstrating sustained market-wide demand. This brings the number of homes and businesses connected to around 8.1m, 30% of those passed. We currently have more than 100,000 customers connected to ultrafast broadband technology, using our FTTP and G.fast network, and it is now available to around 550,000 homes. Openreach, in partnership with Huawei, has also launched the world's first ever live demonstration of a 100Gbps or 'hyperfast' broadband service.

[1] See Glossary on page 2

The UK broadband market[1] grew by 36,000, of which our retail share was 53%. Our retail fibre broadband additions increased by 170,000 taking our base to 5.1m. The above demonstrates continued retail fibre broadband demand, with 55% of our retail customers now on fibre.

TV and BT Sport

Our TV customer base continues to grow with TV net adds of 8,000 taking our base to 1.8m with all of our customers now migrated from our legacy Vision TV platform to YouView.

BT Sport's average audience figures increased 9%, excluding Showcase and digital channels, boosted by the showing of two European finals and the America's Cup. Around 7m viewers watched the UEFA Champions League final across all of our TV platform and digital channels, an increase of 12% compared with last year, and around 6.5m people viewed Manchester United winning the UEFA Europa League final.

Consumer revenue generating units per customer have increased 4% to 2.00, demonstrating strong customer demand across our portfolio of products.

Key operational metrics

Our key operational metrics are as follows:

First quarter to 30 June	2017	2016
Mobile		
Total mobile	**29.8m**	30.3m
Net adds		
- Postpaid	**210,000**	244,000
- Prepaid	**(385,000)**	(291,000)
Base		
- Postpaid	**17.0m**	16.2m
- Prepaid	**6.5m**	8.0m
Postpaid churn	**1.1%**	na[2]
Broadband		
Total broadband	**20.4m**	20.0m
Openreach fibre net adds	**437,000**	333,000
Openreach fibre base	**8.1m**	6.2m
Homes passed - fibre broadband network	**26.8m**	25.8m
- of which homes passed - ultrafast capable	**523,000**	311,000
Retail fibre net adds	**170,000**	181,000
Retail fibre base	**5.1m**	4.3m
TV		
Net adds	**8,000**	59,000
Base	**1.8m**	1.6m
Lines		
Openreach	**25.2m**	25.3m
Lines sold through BT lines of business	**13.1m**	13.5m
Revenue generating units per customer		
Consumer	**2.00**	1.93
Average revenue per user		
Consumer	**£40.8**	£37.8
Mobile postpaid	**£26.6**	£26.2
Mobile prepaid	**£4.6**	£4.1
Order intake (rolling 12 month basis)		
Business and Public Sector	**£3,896m**	£3,229m
Global Services	**£4,448m**	£5,007m
Wholesale and Ventures	**£1,794m**	£1,418m

[1] DSL and fibre, excluding cable
[2] Comparative not available on the same basis

STRATEGIC PRIORITIES

Deliver great customer experience

We have continued our strong performance in delivering customer experience. Right First Time[1] increased by 2.5% and our Group Customer Perception score increased by 2.1 points.

As a result of our investment in customer experience in our consumer businesses, 100% of EE calls and 86% of Consumer calls are answered in the UK and Republic of Ireland. In Consumer average call waiting time is now 71 seconds which is over two minutes faster than a year ago, and in EE we are answering the phone to our mobile customers in 66 seconds.

We've announced plans to open an additional 100 EE stores in Sainsbury's and Argos locations over the next two years so that 95% of the population will be within 20 minutes travelling time of a store. We're also extending the free Apple Music offer to existing customers as well as new customers.

Fixed network fault volumes are 1.2% lower than last year, continuing the recent reversal of the long term trend of rising fault levels.

In June we launched the first InLinkUK from BT kiosk at Camden Town station, with further rollout expected in Camden and Southwark in Q2. These kiosks are new digital street units with potential for generating advertising revenue and will provide internet connectivity at ultrafast speeds of up to 1Gbps as well as free phone calls and a range of free digital services.

Invest for growth

Mobility

Our investment in 4G continues, with our geographic coverage now reaching 83% of the UK's landmass.

On 11 July, Ofcom issued its decisions on competition issues for the forthcoming auction of spectrum in the 2.3GHz and 3.4GHz bands. Ofcom proposes to apply a cap, of 255MHz, on "immediately useable" spectrum that any one operator can buy, and a cap of 340MHz per operator on mobile spectrum overall. As a consequence of this proposed cap, we would not be able to bid for spectrum in the 2.3GHz band, and would be restricted to no more than 85MHz in the 3.4GHz band. While we do not agree with the caps introduced for this auction, our focus remains on investing in our network and continuing to provide the best mobile experience for our customers across the UK.

Broadband

We continue to extend the reach of fibre broadband, through both our commercial investments and the BDUK programmes, as we work towards improving speeds universally. We've passed 26.8m properties with our superfast fibre broadband network and our current ambition is to make ultrafast broadband available to 12m homes and businesses by the end of 2020. In addition, Openreach is formally consulting with its communications provider customers to understand the demand, potential benefits and costs of a more extensive FTTP deployment.

TV and BT Sport

We announced that BT Sport is to become the home of the European Rugby Champions Cup and the European Rugby Challenge Cup in the UK and Republic of Ireland, having secured the rights to broadcast all of the tournaments' matches live. The new deal, starting from the 2018/19 season, will see BT Sport showing all of the best European Club Rugby cup matches until at least 2021/22, which combined with our Aviva Premiership Rugby rights makes us the home of elite English club rugby. In June, we agreed a deal with the International Hockey Federation to become the home of UK and Irish international hockey.

Transform our costs

Our cost transformation programmes are on track. We have incurred costs of £52m, treated as a specific item, as we simplify Group Functions and Technology, Service & Operations (TSO), commence our restructuring of Global Services, and accelerate ongoing transformation programmes in other lines of business. We continue to expect these programmes to cost £300m over two years, with most of this being incurred in 2017/18, and for these programmes to have a payback period of two years. As part of this, we have announced plans to improve the efficiency, competitiveness and sustainability of our Italian business, which will result in a 20% reduction in headcount, of around 200 people.

[1] Measured against Group-wide RFT index

Work has continued on repositioning Global Services as a more focused digital business. Our aim is to shape Global Services so that it can deliver a global, scalable portfolio of our products and services from cloud-based platforms to our multinational customers across a global footprint. We're reviewing the sales operating model to better address the needs of these multinational companies and conducting impact assessments on the implications of a more digital business model, which we expect to continue through Q2. The overall strategic repositioning will involve a two-year process, the costs of which will be treated as a specific item.

OTHER DEVELOPMENTS

EE acquisition warranty claims

We have reached settlements with Deutsche Telekom and Orange in respect of any warranty claims under the 2015 EE acquisition agreement, arising from the issues previously announced regarding our operations in Italy. This represents a full and final settlement in respect of these issues and results in a specific item charge of £225m.

Audit tender

Following the conclusion of the formal audit tender process led by the Audit & Risk Committee, the Board has approved the proposed appointment of KPMG as auditor. Following the completion of the audit of the 2017/18 financial year by PwC, KPMG will be appointed as auditor subject to approval by shareholders at the Annual General Meeting in 2018. We have already commenced transition planning with both KPMG and PwC to ensure a smooth and effective migration during 2017/18.

Regulation

We have outlined below significant developments in regulatory matters since those disclosed in the Annual Report and Form 20-F for the year to 31 March 2017.

Deemed Consent

We have paid the £42m deemed consent fine to Ofcom and have paid £27m in compensation payments to other communications providers (CPs). Compensation payments to other CPs are currently being finalised as part of our discussions with the affected parties. We continue to estimate the total compensation payments will amount to £300m.

Digital Communications Review (DCR)

In March 2017 we announced we had reached agreement with Ofcom in respect of its strategic review of the digital communications industry. This agreement will see Openreach become a distinct, legally separate company within the BT group.

Following BT's voluntary Commitments to reform Openreach, Ofcom published a consultation proposing that BT should be released from the Undertakings that it offered to Ofcom in 2005 under which Openreach was originally created. In July 2017 Ofcom confirmed its decision to release BT from these Undertakings once the new Commitments are fully in place. This document also explains how Ofcom will measure compliance with the new arrangements and assess whether they deliver positive outcomes for consumers and businesses. Completing the reforms will depend on a number of conditions, including the Government amending the Crown Guarantee for the BT Pension Scheme and transferring staff to a distinct company, Openreach Limited.

Wholesale Local Access (WLA) Market Review

On 31 March 2017 Ofcom published a consultation on the Wholesale Local Access market. Ofcom proposes to maintain its policy of pricing flexibility for Openreach's fastest (>40/10Mbps) broadband products, including those based on BT's own network investments in FTTP and G.fast technology. It proposes to introduce a charge control and cut the wholesale price that Openreach can charge CPs for its up to 40Mbps downstream, 10Mpbs upstream superfast broadband service. Ofcom also proposes:

- standard broadband delivered over Openreach's copper network will continue to be subject to a charge control;
- higher service standards for broadband and phone products, with strict rules on Openreach repairs and installations; and
- removal of the formal margin squeeze test on superfast broadband products.

We responded to Ofcom's proposals in June. We continue to engage with Ofcom to reinforce the arguments we made in our response. In particular, we are working with Ofcom to review and refine their modelling assumptions and methodologies to ensure that investments can earn a fair return and charge controls reflect the costs of improved service delivery. We expect Ofcom to issue a final statement containing its proposals in early 2018, with those proposals to take effect from April 2018, and remain in place until March 2021.

Wholesale Broadband Access (WBA) Market Review

In June 2017 Ofcom issued a consultation on the WBA market to apply for the period from 1 April 2018 to 31 March 2021. Ofcom proposes that BT has significant market power in only 2% of premises (compared with just under 10% in the 2014 market review), and also proposes to remove the charge control on WBA prices. We welcome Ofcom's recognition that competition is effective for 98% of UK households, and believe there is therefore no case for regulation in this market. We will respond during Q2, and Ofcom aims to publish its final conclusions in March 2018.

Mobile Call Termination Market Review

In June 2017, Ofcom published a consultation on proposals for the regulation of the Wholesale Mobile Call Termination Market for the period 1 April 2018 to 31 March 2021. Ofcom proposes to define markets and assess significant market power as in previous reviews, and is proposing to continue with charge controls on prices, whilst removing some other regulatory obligations. We will respond to Ofcom in Q2, and Ofcom plans to publish its final statement in March 2018.

Business Connectivity Market Review (BCMR)

In April 2016 Ofcom published its Final Statement on the market review of the provision of Leased Lines (the BCMR Final Statement). This specified the charge controls that apply between April 2016 and March 2019, the introduction of minimum service levels for Openreach ethernet installation and repair, and a requirement to provide dark fibre access. We appealed Ofcom's decision to the Competition Appeal Tribunal (CAT) because we disagreed with the market definition and the imposition of dark fibre as a regulated remedy. The CAT has heard our arguments and upheld our appeal. The CAT has indicated that it will remit matters back to Ofcom for reconsideration. We will now be discussing with Ofcom how we formalise the CAT decision and what arrangements could be put in place whilst Ofcom resets the regulation.

SUMMARY AND OUTLOOK

We've made good progress in our key areas of strategic focus: deliver great customer experience, invest for growth, and transform our costs. Overall the business is performing in line with our expectations. We are well placed to support the roll out of FTTP in the UK. We will work with Government, Ofcom and other communications providers to achieve this outcome.

We will continue to drive efficiencies and cost reduction as demonstrated by our ongoing performance transformation programme. This will create the headroom to reinvest in business development, in customer service and in our networks. While there are challenges ahead, our businesses are leaders in their core segments and we remain confident in the outlook for our Company.

There is no change to our financial outlook for 2017/18, which takes into account the stronger than expected cash position at the end of Q1.

	2017/18
Change in underlying[1] revenue excluding transit	Broadly flat
Adjusted[1] EBITDA	£7.5bn - £7.6bn
Normalised free cash flow[1]	£2.7bn - £2.9bn
Dividend per share	Progressive

[1] See Glossary on page 2

Group results for the first quarter to 30 June 2017

Income statement

Reported revenue was £5,837m. This includes a £101m favourable impact from foreign exchange movements and a £27m reduction in transit revenue. Underlying[1] revenue excluding transit was up 0.2%.

Reported operating costs of £5,235m were up 8%. Adjusted[1] operating costs before depreciation and amortisation of £4,064m were up 3%, reflecting the increased pension costs, business rates, sport programme rights and increased customer investment as highlighted in our Q4 results announcement. This includes £87m adverse impact from foreign exchange movements and a £26m decrease in transit costs. Underlying[1] operating costs excluding transit were up 1.5%.

Adjusted[1] EBITDA of £1,785m was down 2% and underlying[1] EBITDA was down 2.5%. Depreciation and amortisation of £865m was up 1%. Reported net finance expense was £184m while adjusted[1] net finance expense was £129m.

Reported profit before tax was down 42% at £418m due principally to the £373m specific items charge in the quarter. Adjusted[1] profit before tax was down 1% at £791m. The effective tax rate on profit before specific items was 20.2% (Q1 2016/17: 18.0%), with the rate being higher than the standard UK corporation tax rate (19%) principally due to higher overseas tax rates and adjustments for share based payments.

Reported EPS was 2.9p, down 51%. Adjusted[1] EPS of 6.3p was down 5%. These are based on a weighted average number of shares in issue of 9,938m (Q1 2016/17: 9,933m).

Specific items

Specific items[1] resulted in a net charge after tax of £346m (Q1 2016/17: £70m). The main components are as follows:

First quarter to 30 June	2017 £m	2016 £m	Change %
EE acquisition warranty claims	225	-	n/m
Restructuring charge	52	-	n/m
EE integration costs	12	28	(57)
Regulatory risk provision	27	-	n/m
Italian business investigation	2	-	n/m
Property rationalisation costs	-	5	n/m
EBITDA	**318**	33	n/m
Net interest expense on pensions	55	52	6
Tax credit	(27)	(15)	80
Net after tax	**346**	70	n/m

Capital expenditure

Capital expenditure was £835m (Q1 2016/17: £777m). This consists of gross expenditure of £842m (Q1 2016/17: £804m) which has been reduced by net grant funding of £7m (Q1 2016/17: £27m) mainly relating to our activity on the Broadband Delivery UK (BDUK) programme. The capital expenditure increase of £58m was primarily a result of increased investment in our fixed and mobile networks. Total network investment in Q1 was £373m. Other capital expenditure components were broadly flat year on year with £304m spent on customer driven investments and £142m on systems and IT.

Our base-case assumption for take-up in BDUK areas remains at 39% of total homes passed. 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 £26m (Q1 2016/17: £39m) in line with network build in the quarter, we have also deferred £19m (Q1 2016/17: £12m) of the total grant funding to reflect higher take-up levels on a number of contracts. To date we have deferred £465m (Q1 2016/17: £270m).

[1] See Glossary on page 2
n/m = not meaningful

Free cash flow

Net cash inflow from operating activities was down £19m at £1,315m. Normalised free cash flow[1] was up £108m at £556m. The increase primarily reflects favourable working capital movements partially offset by higher capital expenditure.

The net cash cost of specific items was £207m (Q1 2016/17: £52m). This includes payments related to restructuring of £35m (Q1 2016/17: £19m), EE integration cost payments of £10m (Q1 2016/17: £18m EE acquisition and integration related payments) and regulatory payments of £114m (Q1 2016/17: £nil). After specific items and a £14m (Q1 2016/17: £44m) cash tax benefit from pension deficit payments, free cash flow was an inflow of £363m (Q1 2016/17: £440m).

Net debt and liquidity

Net debt[1] was £8,810m at 30 June 2017, a decrease of £122m since 31 March 2017 and £762m lower than 30 June 2016. In the quarter we made £5m of pension deficit payments. We also spent £200m on our share buyback programme following a sell-down by Orange of its BT shares. The repurchase will allow us to satisfy our announced 2017/18 buyback of c.£100m, offsetting the dilutive effect of employee share options this year. Further, we expect to continue to offset the dilutive effect of employee share options in future years. We therefore decided to take advantage of current market conditions and the opportunity to purchase a significant number of shares in a single transaction by participating in the Orange offering. This was in excess of the level previously expected for the 2017/18 buyback.

At 30 June 2017 the group held cash and current investment balances of £3.7bn.

On 23 June 2017 we successfully issued term debt of £2,025m (€2,300m) on the medium-term Euro market to refinance debt at a lower cost and to cancel our bridge facility signed in March 2017. The effective Sterling interest rates on these 5, 7 and 10 year bonds were 1.66%, 2.01% and 2.50%, respectively. We repaid a £0.5bn bond on 23 June 2017 and have term debt of £0.9bn repayable during the remainder of 2017/18. We have £0.8bn collateral for open mark to market positions.

Our £2.1bn facility with 14 high quality syndicate banks (£150m each) remains undrawn at 30 June 2017. This facility matures in September 2021.

Pensions (Note 2 to the condensed consolidated financial statements)

The IAS 19 net pension position at 30 June 2017 was a deficit of £8.0bn net of tax (£9.6bn gross of tax), compared with £7.6bn net of tax (£9.1bn gross of tax) at 31 March 2017. The increase in the deficit reflects a fall in the assets, partly offset by a fall in the liabilities driven by an increase in the real discount rate.

We have commenced constructive and wide ranging discussions with the BT Pension Scheme Trustee regarding the triennial funding valuation which is as of 30 June 2017, and aim to complete discussions in the first half of calendar year 2018. We have also opened discussions with members and our recognised trade unions regarding a review of the BT Pension Scheme benefits.

[1] See Glossary on page 2

Operating review

Consumer

	First quarter to 30 June			
	2017	2016	Change	
	£m	£m	£m	%
Revenue	**1,255**	1,175	80	7
Operating costs	**1,022**	936	86	9
EBITDA	**233**	239	(6)	(3)
Depreciation & amortisation	**53**	52	1	2
Operating profit	**180**	187	(7)	(4)
Capital expenditure	**59**	58	1	2
Normalised free cash flow	**255**	298	(43)	(14)

Revenue was up 7%, with a 9% increase in broadband and TV revenue and a 6% increase in calls and lines revenue, partly due to the impact of price changes. Consumer 12-month rolling ARPU increased 8% to £40.8 per month driven by broadband and BT Mobile. We've also seen growth of 4% in revenue generating units per customer, which is now at 2.00.

As a result of our continued investment in customer experience this year, 150,000 more service calls are being answered every week in the UK and Republic of Ireland compared to a year ago which means 86% of calls are answered onshore. Average call waiting time is now 71 seconds which is over 2 minutes faster than a year ago.

Operating costs increased 9% due to the investment in new UK customer service roles, our new Premier League rights contract and the closure of our legacy Vision TV platform. As a result EBITDA was down 3%. We will continue to invest in customer experience. Depreciation and amortisation was up 2% and operating profit was down 4%.

Capital expenditure was broadly flat and normalised free cash flow decreased 14%.

EE

	First quarter to 30 June			
	2017	2016	Change	
	£m	£m	£m	%
Revenue	**1,291**	1,243	48	4
Operating costs	**956**	962	(6)	(1)
EBITDA	**335**	281	54	19
Depreciation & amortisation	**189**	197	(8)	(4)
Operating profit	**146**	84	62	74
Capital expenditure	**173**	150	23	15
Normalised free cash flow	**166**	187	(21)	(11)

Revenue was up 4% with a 5% increase in postpaid revenue and a 19% increase in fixed broadband revenues, partially offset by a 7% reduction in prepaid revenues. This is the third consecutive quarter of revenue growth, mainly due to the ongoing success of our 'more for more' pricing strategy.

Across BT, we added 210,000 postpaid mobile customers helped by strong SIM-only performance, taking the postpaid base to 17.0m. Group postpaid churn was 1.1% reflecting the continuing high level of customer loyalty. Our prepaid customers fell by 385,000, in line with industry trends, taking the base to 6.5m. Monthly mobile ARPU was £26.6 for postpaid customers and £4.6 for prepaid customers up from £26.2 and £4.1 in the first quarter of last year.

We remain on schedule to meet the Home Office's requirements for our Emergency Services Network (ESN) solution. Our 4G geographic coverage now reaches 83% of the UK's landmass (99% 4G population coverage). And EE was recognised as the best overall network in the latest OpenSignal and RootMetrics reports.

Operating costs were down 1%. EBITDA was up 19%, driven by revenue growth and improved indirect costs, in a slower handset market. The new EU roaming regulation was only effective for the final two weeks of June; the full impact on revenue and EBITDA will be felt from Q2. We also expect the launch of new smartphones in Q3 to impact costs. Depreciation and amortisation was down 4% and operating profit was up 74%.

Capital expenditure was £173m, up 15% as network investment increased. Normalised free cash flow was £166m, down 11% due to higher capital expenditure.

Business and Public Sector

	First quarter to 30 June			
	2017	2016	Change	
	£m	£m	£m	%
Revenue	**1,128**	1,169	(41)	(4)
- underlying excluding transit				(3)
Operating costs	**792**	812	(20)	(2)
EBITDA	**336**	357	(21)	(6)
Depreciation & amortisation	**86**	86	-	-
Operating profit	**250**	271	(21)	(8)
Capital expenditure	**69**	56	13	23
Normalised free cash flow	**209**	252	(43)	(17)

Revenue was down 4%. Underlying revenue excluding transit decreased 3% reflecting the impact on public sector revenue from the completion of a number of large contracts.

SME revenue increased 1%, with growth in mobile, VoIP and networking. Corporate continues to perform well although revenue decreased 6%, largely due to high equipment sales in the prior period. Public Sector and Major Business revenue was down 8%, driven by the decline in public sector revenue, where the timing of contractual milestones has driven the improvement relative to the prior quarter.

Foreign exchange movements had an £8m positive impact on Republic of Ireland revenue, where underlying revenue excluding transit was down 4%.

Order intake increased 81% to £1.2bn and was up 21% to £3.9bn on a rolling 12-month basis, due to the signing of a large wholesale contract in the Republic of Ireland.

Operating costs were 2% lower and EBITDA declined 6%. Depreciation and amortisation was flat and operating profit was 8% lower, driven by the decline in public sector.

Capital expenditure increased £13m and normalised free cash flow was £43m lower reflecting the £21m decrease in EBITDA and the timing of working capital movements.

Global Services

	First quarter to 30 June			
	2017	2016	Change	
	£m	£m	£m	%
Revenue	**1,244**	1,250	(6)	-
- underlying excluding transit				(7)
Operating costs	**1,171**	1,131	40	4
EBITDA	**73**	119	(46)	(39)
Depreciation & amortisation	**106**	106	-	-
Operating (loss) profit	**(33)**	13	(46)	(n/m)
Capital expenditure	**69**	91	(22)	(24)
Normalised free cash flow	**(178)**	(283)	105	37

Revenue was flat including a £93m positive impact from foreign exchange movements whilst transit revenue was down £18m. Underlying revenue excluding transit was down 7%, and excluding the revenue of our Italian business was down 3%.

In the UK underlying revenue excluding transit was up 2%. In Continental Europe underlying revenue excluding transit was down 12%, and excluding the revenue of our Italian business was down 1%. In the Americas[1] underlying revenue was down 12% mainly due to the ongoing impact of a major customer insourcing service. In AMEA[2] underlying revenue was down 5%, reflecting the previously disclosed move to centralised billing via Continental Europe for two major customers.

Our total order intake was £0.8bn, down 16% and on a rolling 12-month basis was £4.4bn, down 11% year on year, reflecting challenging international corporate market conditions.

Operating costs were up 4%, reflecting the impact of foreign exchange movements with underlying operating costs excluding transit down 2%. EBITDA was down 39% and excluding the results of our Italian business was down 27%. Depreciation and amortisation was flat. Operating loss was £33m, down £46m on Q1 16/17 of which £23m relates to our Italian business.

Capital expenditure was down 24% primarily due to the timing of project-related expenditure in the prior year. Normalised free cash flow was an outflow of £178m, an improvement of £105m driven by improved working capital, largely due to the phasing of supplier payments in Italy in the prior year.

[1] United States & Canada and Latin America (Americas)
[2] Asia Pacific, the Middle East and Africa (AMEA)

Wholesale and Ventures

	First quarter to 30 June			
	2017	2016	Change	
	£m	£m	£m	%
Revenue	**492**	518	(26)	(5)
- underlying excluding transit				(4)
Operating costs	**318**	319	(1)	-
EBITDA	**174**	199	(25)	(13)
Depreciation & amortisation	**76**	76	-	-
Operating profit	**98**	123	(25)	(20)
Capital expenditure	**51**	50	1	2
Normalised free cash flow	**100**	134	(34)	(25)

Revenue was down 5% with underlying revenue excluding transit down 4%. Managed solutions revenue was down 11% primarily due to lower revenue from our Mobile Ethernet Access Services (MEAS) contracts, reflecting the maturity of mobile network operator 4G build out programmes.

Data and Broadband revenue was down 6% with the continuing declines in Partial Private Circuits (PPC) more than offsetting fibre broadband, where we continue to see growth but also increasing competition. Voice revenue was down 6% due to the ongoing market decline in call volumes, partially offset by growth in Hosted Communications.

Our Ventures business generated revenue of £68m, broadly in line with last year. This was down against Q4 due to the seasonality of Phonebook publication. Mobile generated revenue of £57m, a 6% increase on last year.

Order intake of £171m was down 49% which was lower than expected partly reflecting slippage of some deals to Q2.

Operating costs were flat and EBITDA decreased 13%, reflecting the revenue decline, particularly in higher margin legacy services. As expected, our EBITDA performance was below that in Q4 reflecting timing on some of our major Wholesale contracts and Phonebook publication dates. For the quarter, depreciation and amortisation was flat, and operating profit decreased 20%.

Capital expenditure was broadly flat. Normalised free cash flow was £100m, down 25% on last year reflecting lower EBITDA and timing on working capital.

Openreach

	First quarter to 30 June			
	2017	2016	Change	
	£m	£m	£m	%
Revenue	**1,267**	1,252	15	1
Operating costs	**653**	620	33	5
EBITDA	**614**	632	(18)	(3)
Depreciation & amortisation	**343**	332	11	3
Operating profit	**271**	300	(29)	(10)
Capital expenditure	**390**	337	53	16
Normalised free cash flow	**303**	235	68	29

Revenue increased by 1% driven by continued strong growth in fibre broadband revenue, which was up 31%. This growth was partly offset by regulatory price changes which had a negative impact of around £20m. Without the impact of regulation, revenue increased by 3%.

So far, we've made FTTP or G.fast services – both of which are capable of delivering ultrafast broadband speeds – available to around 550,000 homes and businesses across the country. More than 100,000 customers are now connected using these technologies.

We're formally consulting with our communications provider customers to understand the demand, potential benefits and costs of a larger FTTP deployment. We are also moving ahead with our DCR commitments by launching our re-brand.

Operating costs were 5% higher mainly driven by a £15m increase in business rates charged on network assets and a £15m higher pension operating charge. EBITDA was down 3% and depreciation and amortisation was up 3% with operating profit down 10%.

Capital expenditure was £390m, up £53m or 16%, reflecting our ongoing investment in fibre broadband coverage and speed, and higher ethernet connections. Capital expenditure was after gross grant funding of £25m (Q1 2016/17: £39m) directly related to our activity on the BDUK programme build which was offset by the deferral of £17m of grant funding (Q1 2016/17: £12m).

Normalised free cash flow was up 29% due to timing of customer cash receipts and other working capital movements.

Financial statements

Group income statement

For the first quarter to 30 June 2017

	Before specific items	Specific items	Total
	£m	£m	£m
Revenue	5,849	(12)	**5,837**
Operating costs	(4,929)	(306)	**(5,235)**
Operating profit	920	(318)	**602**
Finance expense	(131)	(55)	**(186)**
Finance income	2	-	**2**
Net finance expense	(129)	(55)	**(184)**
Share of post tax profits of associates and joint ventures	-	-	**-**
Profit before tax	791	(373)	**418**
Tax	(160)	27	**(133)**
Profit for the period	631	(346)	**285**
Earnings per share			
- basic	6.3p		**2.9p**
- diluted	6.3p		**2.9p**

Group income statement

For the first quarter to 30 June 2016

	Before specific items	Specific items	Total
	£m	£m	£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 cash flow statement

For the first quarter to 30 June

	First quarter to 30 June	
	2017	2016
	£m	£m
Cash flow from operating activities		
Profit before tax	418	717
Share-based payments	18	17
Share of post-tax losses of associates and joint ventures	-	7
Net finance expense	184	206
Depreciation and amortisation	865	855
Increase in working capital	(296)	(364)
Provisions, pensions and other non-cash movements[1]	208	(1)
Cash inflow from operating activities[2]	**1,397**	1,437
Tax paid	(82)	(103)
Net cash inflow from operating activities	**1,315**	1,334
Cash flow from investing activities		
Interest received	-	3
Acquisition of subsidiaries net of cash acquired	(15)	-
Acquisition of associates and joint ventures	(4)	(4)
Purchases of property, plant and equipment and software	(790)	(711)
Proceeds on disposal of property, plant and equipment	6	-
Purchases of current financial assets	(3,907)	(2,073)
Proceeds on disposal of current financial assets	2,198	2,608
Net cash outflow generated from investing activities	**(2,512)**	(177)
Cash flow from financing activities		
Interest paid	(173)	(191)
Equity dividends paid	(1)	(3)
Proceeds from bank loans and bonds	2,027	2
Repayment of borrowings[3]	(501)	(392)
Cash flows from derivatives related to net debt	2	(8)
Net repayment on facility loans	-	(438)
Proceeds on issue of own shares	-	4
Repurchase of ordinary share capital	(200)	(176)
Net cash inflow (outflow) from financing activities	**1,154**	(1,202)
Net decrease in cash and cash equivalents	**(43)**	(45)
Opening cash and cash equivalents	511	459
Net decrease in cash and cash equivalents	(43)	(45)
Effect of exchange rate changes	(7)	25
Closing cash and cash equivalents[4]	**461**	439

[1] Includes pension deficit payments of £5m (Q1 2016/17: £5m)
[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 £18m (Q1 2016/17: £48m)

Group balance sheet

	30 June 2017	30 June 2016[1]	31 March 2017
	£m	£m	£m
Non-current assets			
Intangible assets	14,870	15,388	15,029
Property, plant and equipment	16,621	16,077	16,498
Derivative financial instruments	1,831	2,051	1,818
Investments	43	42	44
Associates and joint ventures	35	22	31
Trade and other receivables	351	230	360
Deferred tax assets	1,823	1,461	1,717
	35,574	35,271	35,497
Current assets			
Programme rights	432	388	264
Inventories	241	216	227
Trade and other receivables	3,880	4,263	3,835
Current tax receivable	57	65	73
Derivative financial instruments	389	220	428
Investments	3,242	2,400	1,520
Cash and cash equivalents	479	487	528
	8,720	8,039	6,875
Current liabilities			
Loans and other borrowings	2,059	2,919	2,632
Derivative financial instruments	51	40	34
Trade and other payables	7,391	7,497	7,437
Current tax liabilities	184	271	197
Provisions	813	183	625
	10,498	10,910	10,925
Total assets less current liabilities	**33,796**	32,400	31,447
Non-current liabilities			
Loans and other borrowings	12,122	10,972	10,081
Derivative financial instruments	821	961	869
Retirement benefit obligations	9,631	7,579	9,088
Other payables	1,320	1,189	1,298
Deferred tax liabilities	1,306	1,290	1,240
Provisions	532	542	536
	25,732	22,533	23,112
Equity			
Ordinary shares	499	499	499
Share premium	1,051	1,051	1,051
Own shares	(295)	(226)	(96)
Merger reserve	6,647	8,422	6,647
Other reserves	859	918	884
Retained loss	(697)	(797)	(650)
Total equity	**8,064**	9,867	8,335
	33,796	32,400	31,447

[1] Revised. 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 2017 and 30 June 2016 together with the audited balance sheet at 31 March 2017.

Except as described below and other than income taxes which are accrued using the tax rate that is expected to be applicable for the full financial year, 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 2017 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 2017 were approved by the Board of Directors on 11 May 2017, published on 25 May 2017, 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 2017. The EE line of business results do not constitute the entirety of EE Limited.

Revisions on prior year financial statements

We have made several revisions to our prior year financial information as set out below. The effect of the prior year errors on the balance sheet as at 30 June 2016 is set out in the Additional Information on page 24.

Investigation into our Italian business

In 2016/17 our investigations into our Italian business revealed inappropriate behaviour and improper accounting practices. The improper practices included a complex set of improper sales, purchase, factoring and leasing transactions.

In total we identified errors in 2015/16 and prior periods that amounted to a £283m reduction in total equity in our 30 June 2016 balance sheet.

These prior year errors have resulted from profits, and therefore equity, being overstated for a number of years. These errors affected the Consolidated Group Balance Sheets and Consolidated Group Income Statements included in the Annual Report and Form 20-F for a number of years including the years ended 31 March 2016 and 31 March 2015, and in each of the quarterly results announcements of those years. We concluded that these errors were not material to those or any other of the Group's previously issued financial statements.

We also assessed whether the correction of the cumulative effect of these errors in 2016/17 would be material to that year and concluded that correcting them in 2016/17 would be material. Therefore we considered it appropriate to correct the errors by revising 2015/16 to avoid misstating 2016/17. The effect of the prior year errors on the balance sheet as at 30 June 2016 is set out in the Additional Information on page 24 and replicates the adjustments recorded on the balance sheet as at 31 March 2016.

Acquisition of EE

IFRS 3 'Business Combinations' requires us to recognise provisional fair values if the initial accounting for the business combination is incomplete. In the period ended 31 March 2016, we reported that the fair values recognised for our 29 January 2016 acquisition of EE were provisional. During 2016/17, we finalised this assessment and also received a purchase consideration refund from the previous owners of £20m following the finalisation of the audit of the completion balance sheet. This resulted in a revision to previously recognised brand, customer relationship and prepaid assets which decreased by £15m. Our reassessment also led to a £14m decrease in receivables and an increase in provisions related to unfavourable contracts in the amount of £20m. The net impact of the adjustments including the deferred tax effect resulted in an increase in goodwill of £29m as of 30 June 2016. These had no material impact on the income statement.

2 Pensions

	30 June 2017	31 March 2017
	£bn	£bn
IAS 19 liabilities – BTPS	(58.1)	(58.6)
Assets – BTPS	49.0	50.0
Other schemes	(0.5)	(0.5)
Total IAS 19 deficit, gross of tax	**(9.6)**	**(9.1)**
Total IAS 19 deficit, net of tax	**(8.0)**	**(7.6)**
Discount rate (nominal)	2.45%	2.40%
Discount rate (real)	(0.73)%	(0.78)%
RPI inflation	3.20%	3.20%
CPI inflation	0.7% below RPI until 31 March 2019 and 1.2% below RPI thereafter	0.7% below RPI until 31 March 2019 and 1.2% below RPI thereafter

3 Contingent liabilities

There have been no material updates to the year-end disclosures relating to legal proceedings and regulatory matters as disclosed in note 30 in the Annual Report and Form 20-F for the year to 31 March 2017.

Additional Information

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. 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, operating profit, profit before tax and EPS are set out in the Group income statement. Reconciliations of underlying revenue excluding transit, underlying operating costs excluding transit, EBITDA, underlying 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 excluding transit, underlying operating costs excluding transit, 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 exclude transit from the trends as transit traffic is low-margin and is affected by reductions in mobile termination rates.

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 is provided below.

	First quarter to 30 June	
	2017	2016
	£m	£m
Reported profit before tax	**418**	717
Share of post tax losses of associates and joint ventures	**-**	7
Net finance expense	**184**	206
Operating profit	**602**	930
Depreciation and amortisation	**865**	855
EBITDA	**1,467**	1,785
Specific items	**318**	33
Adjusted[1] EBITDA	**1,785**	1,818

[1] See Glossary on page 2

Free cash flow

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

	First quarter to 30 June	
	2017	2016
	£m	£m
Cash generated from operations	**1,397**	1,437
Tax paid	**(82)**	(103)
Net cash inflows from operating activities	**1,315**	1,334
Add back pension deficit payments	**5**	5
Included in cash flows from investing activities		
Net purchase of property, plant and equipment and software	**(784)**	(711)
Interest received	**-**	3
Included in cash flows from financing activities		
Interest paid	**(173)**	(191)
Free cash flow[1]	**363**	440
Net cash flow from specific items	**207**	52
Cash tax benefit of pension deficit payments	**(14)**	(44)
Normalised free cash flow[1]	**556**	448

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	
	2017	2016
	£m	£m[2]
Loans and other borrowings	**14,181**	13,891
Cash and cash equivalents	**(479)**	(487)
Current asset investments	**(3,242)**	(2,400)
	10,460	11,004
Adjustments:		
To re-translate currency denominated balances at swapped rates where hedged[3]	**(1,401)**	(1,119)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method[4]	**(249)**	(313)
Net debt[1]	**8,810**	9,572

[1] See Glossary on page 2
[2] Revised, see note 1 to the condensed consolidated income statement
[3] The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency
[4] Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date

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

Year on year 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, are set out below.

	First quarter to 30 June 2017
	%
Increase in reported revenue	**1.1**
Specific items	0.2
Increase in adjusted[1] revenue	**1.3**
Transit revenue	0.4
Acquisitions and disposals	0.2
Foreign exchange movements	(1.7)
Increase in underlying[1] revenue excluding transit	**0.2**

	First quarter to 30 June 2017
	%
Increase in reported operating costs	**8.0**
Depreciation and amortisation	1.5
Increase in reported operating costs[2]	**9.5**
Specific items	(6.8)
Increase in adjusted[1] operating costs	**2.7**
Transit costs	0.6
Acquisitions and disposals	0.3
Foreign exchange movements	(2.1)
Increase in underlying[1] operating costs excluding transit	**1.5**

Reconciliation of year on year trends in underlying 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 the trends in EBITDA is provided below.

	First quarter to 30 June 2017
	%
Decrease in EBITDA	**(17.8)**
Specific items	16
Decrease in adjusted[1] EBITDA	**(1.8)**
Acquisitions and disposals	0.1
Foreign exchange movements	(0.8)
Decrease in underlying[1] EBITDA	**(2.5)**

[1] See Glossary on page 2
[2] Before depreciation and amortisation

Revision of prior period statements

Group Balance Sheet

At 30 June 2016

	As published	EE purchase price accounting finalisation adjustment[1]	Italian business adjustment[1]	Revised
	£m	£m	£m	£m
Non-current assets				
Intangible assets	15,374	14	-	15,388
Property, plant and equipment	16,118	-	(41)	16,077
Trade and other receivables	246	-	(16)	230
Other non-current assets	3,576	-	-	3,576
	35,314	**14**	**(57)**	**35,271**
Current assets				
Trade and other receivables	4,352	6	(95)	4,263
Cash and cash equivalents	487	-	-	487
Other current assets	3,289	-	-	3,289
	8,128	**6**	**(95)**	**8,039**
Current liabilities				
Loans and other borrowings	2,919	-	-	2,919
Trade and other payables	7,362	-	135	7,497
Other current liabilities	488	7	(1)	494
	10,769	**7**	**134**	**10,910**
Total assets less current liabilities	**32,673**	**13**	**(286)**	**32,400**
Non-current liabilities				
Loans and other borrowings	10,979	-	(7)	10,972
Retirement benefit obligations	7,579	-	-	7,579
Other non-current liabilities	3,965	13	4	3,982
	22,523	**13**	**(3)**	**22,533**
Equity				
Ordinary shares	499	-	-	499
Other reserves	10,185	-	(20)	10,165
Retained loss	(534)	-	(263)	(797)
Total equity	**10,150**	**-**	**(283)**	**9,867**
	32,673	**13**	**(286)**	**32,400**

[1] Revised to reflect EE PPA finalisation and the outcome of our investigation into our Italian business. 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 2017/18 including revenue, EBITDA and free cash flow; dividend growth and share buyback; our deployment of ultrafast broadband and roll out of G.fast technology; and roll out of 4G coverage.

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, consultations and market reviews, outcomes of appeal and conditions or requirements in BT's operating areas, including the outcome of Ofcom's strategic review of digital communications in the UK and the implementation of the DCR commitments; Ofcom's consultations on the Wholesale Access Market and greater FTTP deployment, forthcoming spectrum auctions, as well as 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 and cost transformation not being delivered; the outcome of the BT Italian business investigations and BT's broader review of financial processes, systems and controls across the Group; the outcome of discussions with the BT Pension Scheme Trustee; 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.

Enquiries

Press office:
Dan Thomas Tel: 020 7356 5369

Investor relations:
Mark Lidiard Tel: 020 7356 4909

We will hold a conference call for analysts and investors in London at 9am 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 2017/18 on 2 November 2017.

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.

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