Financial results

BT Group plc

Results for the third quarter to 31 December 2016

27 January 2017

BT Group plc (BT.L) today announced its results for the third quarter and nine months to 31 December 2016.

Financial highlights for the quarter:

- Reported revenue up 32%, and underlying revenue[1] excluding transit adjusted for the acquisition of EE down 1.5%
- Reported earnings per share down 59% and adjusted[2] earnings per share down 24%
- Adjusted[2] EBITDA of £1,870m up 18%, with underlying EBITDA[1] adjusted for the acquisition of EE down 8%
- Total adjustments relating to the investigation of our Italian business amount to £268m for prior year errors, for which we've revised prior periods, and a specific item charge of £245m for changes in accounting estimates (£145m in Q2 and £100m in Q3). See pages 5 and 20
- Net cash inflow from operating activities £1,515m, down £178m and normalised free cash flow[3] £606m, down £298m
- Outlook: 2016/17 underlying revenue[1] broadly flat, EBITDA[2] of c.£7.6bn, normalised free cash flow[3] of c.£2.5bn. 2017/18 underlying revenue[1] broadly flat, EBITDA[2] broadly flat, normalised free cash flow[3] of £3.0bn – £3.2bn

Operational highlights for the quarter:

- Mobile pay monthly net additions of 276,000, with low churn of 1.1%
- Retail broadband net additions at 83,000, with retail fibre broadband net additions at 260,000
- Record Openreach fibre broadband net connections at 498,000, including 48% from external service providers
- Openreach has halved missed appointments year on year
- Mike McTighe appointed Chairman of the new Openreach Board
- 100% of EE calls now handled in UK and Ireland contact centres and we've added around 500 UK and Ireland contact centre roles in Consumer, with around 900 to be filled in the final quarter of the year

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

"The good progress we're making across most of the business has unfortunately been overshadowed by the results of our investigation into our Italian operations and our outlook. We've undertaken extensive investigations into our Italian business, including an independent review by KPMG, and I am deeply disappointed with the unacceptable practices by some that we've found. This has no place at BT, and it undermines the good work we're doing elsewhere in the Group. We are committed to ensuring the highest standards across the whole of BT.

"We face a more challenging outlook in the UK public sector and international corporate markets but we've seen record growth at EE, strong momentum in Consumer, and our highest ever fibre net connections in Openreach. Customer experience remains a top priority. EE is now answering 100 per cent of its customers' calls in the UK and Ireland. In Openreach, missed appointments have halved year on year. We'll continue to invest to ensure our service levels improve and that our customers see the benefit.

"We are pushing ahead with reforms at Openreach, particularly on governance and customer service and continue to believe an agreement can be reached with Ofcom on its Digital Communications Review. We think these changes address Ofcom's concerns and can form the basis for a fair, proportionate and sustainable settlement."

	Third quarter to 31 December 2016		Nine months to 31 December 2016	
	£m	Change[4,5]	£m	Change[4,5]
Reported measures				
Revenue	**6,128**	32%	**17,940**	33%
Profit before tax	**526**	(37)%	**1,914**	(7)%
Basic earnings per share	**3.8p**	(59)%	**15.4p**	(27)%
Adjusted measures				
Change in underlying revenue[1] excluding transit adjusted for the acquisition of EE		(1.5)%		0.1%
Adjusted[2] EBITDA	**1,870**	18%	**5,576**	26%
Change in underlying EBITDA[1] adjusted for the acquisition of EE		(8)%		(2)%
Adjusted[2] profit before tax	**826**	(8)%	**2,501**	11%
Adjusted[2] basic earnings per share	**6.6p**	(24)%	**20.4p**	(6)%
Normalised free cash flow[3]	**606**	£(298)m	**1,948**	£369m
Net debt			**8,981**	£3,966m

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

[2] Before specific items, which are defined on page 3

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

[4] The results for the period include EE which we acquired on 29 January 2016. Unless referred to as underlying adjusted for the acquisition of EE, comparatives do not include EE

[5] Certain prior year results have been revised to reflect the outcome of the investigation into our Italian business. See Note 1 to the condensed consolidated financial statements

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Group results for the third quarter and nine months to 31 December 2016

	Third quarter to 31 December			Nine months to 31 December		
	2016	2015[1]	Change[2]	**2016**	2015[1]	Change[2]
	£m	£m	%	**£m**	£m	%
Revenue						
- reported	**6,128**	4,630	32	**17,940**	13,442	33
- adjusted[3]	**6,126**	4,587	34	**17,954**	13,239	36
- change in underlying revenue[4] excluding transit adjusted for the acquisition of EE			(1.5)			0.1
EBITDA						
- reported	**1,624**	1,574	3	**5,148**	4,408	17
- adjusted[3]	**1,870**	1,584	18	**5,576**	4,431	26
- change in underlying EBITDA[4] adjusted for the acquisition of EE			(8)			(2)
Operating profit						
- reported	**729**	981	(26)	**2,529**	2,564	(1)
- adjusted[3]	**975**	991	(2)	**2,957**	2,587	14
Profit before tax						
- reported	**526**	832	(37)	**1,914**	2,062	(7)
- adjusted[3]	**826**	898	(8)	**2,501**	2,254	11
Basic earnings per share						
- reported	**3.8p**	9.2p	(59)	**15.4p**	21.0p	(27)
- adjusted[3]	**6.6p**	8.7p	(24)	**20.4p**	21.8p	(6)
Capital expenditure	**852**	580	47	**2,432**	1,862	31
Normalised free cash flow[5]	**606**	904	(33)	**1,948**	1,579	23
Net debt				**8,981**	5,015	£3,966m

Line of business results[3]

	Revenue			EBITDA			Free cash flow[5]		
Third quarter to	**2016**	2015[1]	Change	**2016**	2015[1]	Change	**2016**	2015	Change
31 December	**£m**	£m	%	**£m**	£m	%	**£m**	£m	%
Consumer	**1,262**	1,208	4	**260**	274	(5)	**162**	353	(54)
EE	**1,311**	-	n/m	**277**	-	n/m	**141**	-	n/m
Business and Public Sector	**1,190**	1,035	15	**393**	341	15	**302**	289	4
Global Services	**1,398**	1,299	8	**40**	131	(69)	**(115)**	23	n/m
Wholesale and Ventures	**528**	578	(9)	**211**	182	16	**151**	166	(9)
Openreach	**1,284**	1,294	(1)	**676**	677	-	**362**	419	(14)
Other	**2**	4	n/m	**13**	(21)	n/m	**(397)**	(346)	15
Intra-group items	**(849)**	(831)	2	**-**	-	-	**-**	-	-
Total	**6,126**	4,587	34	**1,870**	1,584	18	**606**	904	(33)

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

Notes:

1. Our commentary focuses on the trading results on an adjusted basis, which is a non-GAAP measure, being before specific items. Unless otherwise stated, revenue, operating costs, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, profit before tax, net finance expense, earnings per share (EPS) and normalised free cash flow are measured before specific items. This is consistent with the way that financial performance is measured by management and reported to the Board and the Operating Committee and assists in providing a meaningful analysis of the trading results of the group. The directors believe that presentation of the group's results in this way is relevant to the understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Specific items may not be comparable with similarly titled measures used by other companies. Reported revenue, reported operating costs, reported operating profit, reported profit before tax, reported net finance expense and reported EPS are the equivalent unadjusted or statutory measures. Reconciliations of reported to adjusted revenue, operating costs and operating profit are set out in the Group income statement. Reconciliations of underlying revenue excluding transit adjusted for the acquisition of EE, underlying operating costs excluding transit adjusted for the acquisition of EE, EBITDA, underlying EBITDA adjusted for the acquisition of EE, net debt and free cash flow to the nearest measures prepared in accordance with IFRS are provided in the notes to the condensed consolidated financial statements and in the Additional Information.

2. Trends in underlying revenue excluding transit adjusted for the acquisition of EE, underlying operating costs excluding transit adjusted for the acquisition of EE, and underlying EBITDA adjusted for the acquisition of EE 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. Given the significance of the EE acquisition to the group, in 2016/17 we are calculating underlying revenue excluding transit adjusted for the acquisition of EE, underlying operating costs excluding transit adjusted for the acquisition of EE and underlying EBITDA adjusted for the acquisition of EE (see note 3), as though EE had been part of the group from 1 April 2015. This is different from how we usually adjust for acquisitions, and is the basis for our 2016/17 outlook.

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

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

We are scheduled to announce the fourth quarter results for 2016/17 on Thursday 11 May 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.

For the year ended 31 March 2016[1], BT Group's reported revenue was £19,012m with reported profit before taxation of £2,907m.

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

[1] The comparative information of the current period results have been revised to reflect the outcome of the investigation into our Italian business

BT Group plc

Group results for the third quarter to 31 December 2016

Note: The comparative information of the current period results have been revised to reflect the outcome of the investigation into our Italian business. These results also include EE which we acquired on 29 January 2016. Unless referred to as underlying adjusted for the acquisition of EE, the comparatives do not include EE as explained in the notes on page 3.

Overview

The good progress we've been making across most of our business has been overshadowed by the results of our investigation into our Italian operations and our outlook. We are facing challenging market conditions in the UK public sector and international corporate markets.

Our main measure of the group's revenue trend, underlying revenue[1] excluding transit adjusted for the acquisition of EE, was down 1.5%. Excluding the revenues of our Italian business this was down 0.5%. Our consumer-facing lines of business generated good revenue growth. Consumer revenue was up 4%, with broadband and TV revenue up 8% and a 3% increase in calls and lines. EE underlying revenue[1] adjusted for the acquisition of EE was up 2%, turning to growth for the first time in EE's history, mainly due to the success of our 'more for more' pricing strategy. Openreach revenue was down 1%, with the impact of regulatory price reductions offsetting the continued growth in fibre. Wholesale and Ventures underlying revenue[1] excluding transit adjusted for the acquisition of EE was down 3%, as a result of the continuing decline in Partial Private Circuits and call volumes. Business and Public Sector underlying revenue[1] excluding transit adjusted for the acquisition of EE was down 6%, due to the decline in UK public sector revenue. Global Services underlying revenue[1] excluding transit adjusted for the acquisition of EE was down 7% which includes a reduction following the investigation into our Italian business, as well as challenging international corporate markets.

Underlying operating costs[1,2] excluding transit adjusted for the acquisition of EE were up 2%. This reflects the new FA Premier League rights contract, our increased investment in BT mobile handsets and continued investment in improving customer experience. Underlying EBITDA[1] adjusted for the acquisition of EE was down 8%. Excluding the results of our Italian business this was down 3%. We remain on track to meet our synergy targets in relation to the integration of EE.

Our TV customer base continues to grow. During the quarter we added 52,000 new customers, taking our base to 1.7m. BT Sport's average audience figures increased 15% excluding Showcase and digital channels.

Our mobile base was consistent with last quarter at 30.2m. We added 276,000 postpaid mobile customers, taking the postpaid customer base to 16.7m. The number of prepaid customers reduced by 326,000, in line with industry trends, taking the base to 7.3m. Our 4G customer base reached 18.2m. Monthly mobile ARPUs[3] were £26.7 for postpaid customers and £4.7 for prepaid customers. Our postpaid churn[3] remains low at 1.1%, displaying sustained customer loyalty and reflecting EE's continuing recognition as the UK's leading mobile network in independent surveys. During the quarter Plusnet launched Plusnet Mobile, and BT Mobile launched its Family SIM service for mobiles and tablets, offering families up to five SIMs on one contract, each with individual allowances and with discounts that increase with the number of SIMs.

The UK broadband market[4] grew by 189,000, of which our retail share was 83,000 or 44%. Retail fibre broadband demand continued, with 51% of our retail customers now on fibre. We added 260,000 customers this quarter, taking our retail fibre broadband base to 4.7m. Openreach achieved 498,000 fibre broadband net connections and service providers other than BT accounted for 48%, demonstrating sustained market-wide demand. This brings the number of homes and businesses connected to around 7.2m, 27% of those passed.

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

[2] Before depreciation and amortisation

[3] From Q3 2016/17 the ARPU and postpaid churn calculations includes mobile customers across BT; ARPU was previously reported for EE Ltd customers and churn for EE LoB

[4] DSL and fibre, excluding cable

Investing in our network and customer experience

We've passed over 26m premises with our superfast fibre broadband network, helping the Government towards its target of bringing fibre broadband to 95% of the country by the end of 2017. And we plan to go even further. Our ultrafast broadband deployment plans are on track and we're now offering to connect FTTP free of charge to developers of 30 or more homes, as well as continuing to roll out our G.fast pilots.

We're making progress on our strategy to reach 92% 4G geographic coverage by September 2017 and 95% by the end of December 2020. We've reached UK geographic coverage of 75% (99% 4G population coverage), the largest of any UK operator. EE switched on the first 700 new sites using 800MHz spectrum in November, improving geographic and in-building coverage. We're also partnering with Huawei to conduct joint research into the development of 5G.

Improving customer experience remains a top priority. We've added around 500 UK and Ireland based contact centre roles in Consumer this quarter and will be recruiting around 900 in Q4. In December EE achieved its goal of handling 100% of customer calls in UK and Ireland contact centres. And in Openreach we've halved, year on year, the number of appointments our engineers miss.

Update on investigation into BT's Italian business

We announced on 27 October 2016 that an initial internal investigation of accounting practices in our Italian business had identified certain historical accounting errors and areas of management judgement requiring reassessment. At that time, the write down of items on the balance sheet was £145m, being the then best estimate of the financial impact.

Since then we have progressed the investigation in Italy, which has included an independent review by KPMG LLP and our own comprehensive balance sheet review. These investigations have revealed that the extent and complexity of inappropriate behaviour in the Italian business were far greater than previously identified and have revealed improper accounting practices and a complex set of improper sales, purchase, factoring and leasing transactions. These activities have resulted in the overstatement of profits in our Italian business over a number of years.

The investigation into the financial position of our Italian business is now substantially complete. The adjustments identified amount to £268m in relation to prior year errors, and £245m for changes in accounting estimates as the carrying value of items has been reassessed. The prior year errors have been reflected in the relevant comparative period and the changes in estimates have been treated as a specific item charge with £145m in the second quarter and a further £100m this quarter.

The inappropriate behaviour in our Italian business is an extremely serious matter, and we have taken immediate steps to strengthen the financial processes and controls in that business. We suspended a number of BT Italy's senior management team who have now left the business. We have also appointed a new Chief Executive of BT Italy who will take charge on 1 February 2017. He will review the Italian management team and will work with BT Group Ethics and Compliance to improve the governance, compliance and financial safeguards, and reposition and restructure our Italian business.

KPMG LLP are reviewing the systems and controls of our Italian operations. To ensure independence, KPMG LLP and the investigation team report directly to the Chair of the BT Group Audit & Risk Committee.

Further, we are conducting a broader review of financial processes, systems and controls across the Group, including an assessment of whether there are any significant deficiencies or material weaknesses. The BT Group Remuneration Committee will consider the wider implications of the BT Italy investigation.

The UK's exit from the EU

The weakening of sterling has continued to impact our financial results, causing volatility on revenue and cost but with minimal EBITDA impact. However, following the result of the EU referendum, there remains significant uncertainty around the nature of Britain's future trading relationship with the EU and globally. We continue to monitor the longer term impact of the UK's decision to exit the EU.

Income statement

Reported revenue was £6,128m, up 32%. Adjusted[1] revenue, which is before specific items, was £6,126m, up 34%, mainly as a result of the contribution of EE. This includes a £189m favourable impact from foreign exchange movements, a £16m reduction in transit revenue, and a reduction in Italy, which includes the reversal of inappropriate sales transactions from the first half of the year. Underlying revenue[2] excluding transit adjusted for the acquisition of EE was down 1.5%. Excluding the revenues of our Italian business this was down 0.5%.

Reported operating costs of £5,399m were up 48% and adjusted[1] operating costs[3] of £4,256m were up 42%, due mainly to EE. Underlying operating costs[2,3] excluding transit adjusted for the acquisition of EE were up 2%.

Net labour costs of £1,176m were up 15%, reflecting the additional EE employees that have joined the group. Property and energy costs were up 22%, network operating and IT costs up 66% and payments to telecommunications operators up 32%, driven primarily by EE. BT Sport programme rights charges were £187m, up £25m mainly as a result of the new FA Premier League rights contract. Other costs were up £752m or 83%, reflecting EE.

Adjusted[1] EBITDA of £1,870m was up 18%. Underlying EBITDA[2] adjusted for the acquisition of EE was down 8% mainly as a result of our Italian business and decline in UK public sector revenue. Excluding the results of our Italian business this was down 3%. Depreciation and amortisation of £895m was up 51% largely due to the impact of EE. Reported net finance expense was £203m while adjusted[1] net finance expense was £149m, up £54m primarily due to higher net debt as a result of our acquisition of EE.

Reported profit before tax (which includes specific items) was £526m, down 37%. Adjusted[1] profit before tax decreased 8% to £826m. The effective tax rate on profit before specific items was 20.7% (Q3 2015/16: 19.3%).

Reported EPS (which includes specific items) was 3.8p, down 59%. Adjusted[1] EPS of 6.6p was down 24%. These are based on a weighted average number of shares in issue of 9,943m (Q3 2015/16: 8,356m), up 19% mainly reflecting the additional shares we issued as part of our acquisition of EE.

Specific items

Specific items resulted in a net charge after tax of £281m (Q3 2015/16: £41m credit). This mainly reflects the £245m impact (Q3 2015/16: £nil) arising from changes in accounting estimates regarding the value of the assets and liabilities of our Italian business at 31 March 2016 as detailed on page 5, £145m of which was recognised in the second quarter and a further £100m in this quarter. We also recognised an increase to our regulatory risk provision of £79m (Q3 2015/16: £nil), as detailed on page 7. Other specific items were out of period irrecoverable VAT of £28m (Q3 2015/16: £nil), EE integration costs of £41m (Q3 2015/16: EE acquisition-related costs £11m), a profit on disposal of a business of £2m (Q3 2015/16: £nil) and net interest expense on pensions of £53m (Q3 2015/16: £55m) and £1m (Q3 2015/16: £nil) of interest on the irrecoverable VAT. In addition we recognised £2m (Q3 2015/16: £43m) of both transit revenue and costs, with no EBITDA impact, being the effect of ladder pricing agreements relating to previous years. The tax credit on specific items was £19m (Q3 2015/16: £107m). Last year we also recognised £94m tax credit for the re-measurement of deferred tax balance as a result of the rate change.

Capital expenditure

Capital expenditure was £852m (Q3 2015/16: £580m). This consists of gross expenditure of £863m (Q3 2015/16: £643m) which has been reduced by net grant funding of £11m (Q3 2015/16: £63m) mainly relating to our activity on the Broadband Delivery UK (BDUK) programme.

Our base-case assumption for take-up in BDUK areas remains at 33%. Under the terms of the BDUK programme, we have a potential obligation to either re-invest or repay grant funding depending on factors including the level of customer take-up achieved. While we have recognised gross grant funding of £45m (Q3 2015/16: £85m) in line with network build in the quarter, we have also deferred £34m (Q3 2015/16: £22m) of the total grant funding to reflect higher take-up levels on a number of contracts. To date we have deferred £325m.

[1] Before specific items, which are defined on page 3

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

[3] Before depreciation and amortisation

Free cash flow

Net cash inflow from operating activities was down £178m at £1,515m. Normalised free cash flow[1] was down £298m at £606m. The decrease primarily reflects the timing of receipts and payments in the year, higher capital expenditure and the impact of cash outflows in our Italian business as we unwind the effects of inappropriate working capital practices.

The net cash cost of specific items was £32m (Q3 2015/16: £18m). This includes EE integration cost payments of £18m (Q3 2015/16: £4m EE acquisition-related cost payments). After specific items and a £11m (Q3 2015/16: £44m) cash tax benefit from pension deficit payments, reported free cash flow was an inflow of £585m (Q3 2015/16: £930m).

Net debt and liquidity

Net debt was £8,981m at 31 December 2016, a reduction of £586m since 30 September 2016 and £857m lower than at 31 March 2016. In the quarter, reported free cash flow was £585m and we received proceeds of £6m from the exercise of employee share options.

At 31 December 2016 the group held cash and current investment balances of £2.8bn. During the quarter to 31 December 2016 we repaid term debt of £0.7bn.

Short term borrowings of £1.5bn include term debt of £0.7bn repayable in February 2017, the outstanding portion of our overdraft and collateral for open mark-to-market positions, totalling £0.8bn. Our £2.1bn committed facility, which runs to September 2021, remains undrawn as at 31 December 2016.

Pensions

The IAS 19 net pension position at 31 December 2016 was a deficit of £9.2bn net of tax (£11.1bn gross of tax), compared with £9.5bn net of tax (£11.5bn gross of tax) at 30 September 2016. The 2017/18 pensions operating charge will be calculated at 31 March 2017, with changes in market conditions since 31 March 2016 expected to increase the operating charge by tens of millions of pounds year on year.

Regulation

In November 2016, Ofcom published its final determination in the disputes relating to historic pricing of Special Fault Investigation (SFI) and Time Related Charges (TRCs). Ofcom found that certain prices between 1 January 2009 and 30 June 2014 were not cost oriented and that we should therefore make repayments to the disputing parties. Also in November 2016, the Competition Appeal Tribunal handed down judgment dismissing our appeal against Ofcom's November 2015 determination on Average Porting Conveyance Charges (APCCs). Together with a review of our regulatory risk position in relation to other historical matters, we have increased our regulatory risk provision by £79m in the quarter (Q3 2015/16: £nil). This increase is treated as a specific item.

On 29 November 2016, Ofcom announced they were planning to proceed with a formal notification to the European Commission seeking approval to mandate legal separation of Openreach. Ofcom has stated that it plans to consult on the notification in early 2017, following which it intends to submit its proposals to the Commission later in the year. We've made our own proposals and have already started to implement some of these including appointing an independent Chairman with a view to setting up an Openreach Board. We continue to work with Ofcom to reach a voluntary settlement that is good for customers, shareholders, employees, pensioners and investment in the UK's digital future.

During the quarter, Ofcom issued a consultation setting out proposals for how the narrowband markets should be regulated during the three years from 1 October 2017 to 30 September 2020, including proposals to remove formal charge controls on some markets. Ofcom also issued a consultation on proposals of how it plans to make it quicker and easier for Communications Providers to build their own fibre networks direct to homes and offices using BT's existing poles and 'ducts'. We'll respond to these consultations in the fourth quarter.

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

Outlook

The outcome of our investigation into our Italian business reduced third quarter adjusted revenue and adjusted EBITDA by around £120m, and reduced Q3 normalised free cash flow by around £100m. For 2016/17 as a whole, relative to our prior outlook, we would expect a decrease in adjusted revenue of around £200m, in adjusted EBITDA of around £175m, and of up to £500m of normalised free cash flow due to the EBITDA impact and the one-off unwind of the effects of inappropriate working capital transactions. For 2017/18, we would expect a similar annual impact to adjusted revenue and adjusted EBITDA as in 2016/17, with the EBITDA impact flowing through to normalised free cash flow.

Looking ahead, however, the outlook for UK public sector and international corporate markets has deteriorated. For Business and Public Sector, this means we now expect a double-digit year on year percentage decline in Q4 underlying EBITDA adjusted for the acquisition of EE.

As a result of the outcome of the investigation into our Italian business and the pressures in the UK public sector and international corporate markets, we now expect underlying revenue excluding transit adjusted for the acquisition of EE to be broadly flat in 2016/17 and adjusted EBITDA to be around £7.6bn. Normalised free cash flow is now expected to be around £2.5bn.

For 2017/18, we now expect both underlying revenue excluding transit and adjusted EBITDA to be broadly flat year on year. We expect normalised free cash flow to be £3.0bn - £3.2bn.

This outlook is provided on the basis of our existing investment plans.

We continue to expect to grow our dividend per share by at least 10% in both 2016/17 and 2017/18. We have completed our £206m buy back of shares in 2016/17 to help counteract the dilutive effect of all-employee share option plans maturing in the year.

In summary, our outlook for 2016/17 and 2017/18 is as follows:

	2016/17	2017/18
Change in underlying revenue[1] excluding transit	Broadly flat	Broadly flat
Adjusted EBITDA[2]	c.£7.6bn	Broadly flat
Normalised free cash flow[3]	c.£2.5bn	£3.0bn - £3.2bn
Dividend per share	≥10% growth	≥10% growth
Share buyback	£206m	

[1] Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015. This differs from how we usually adjust for acquisitions as explained on page 3
[2] Before specific items, which are defined on page 3
[3] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

Operating review

Consumer

	Third quarter to 31 December				Nine months to 31 December			
	2016	2015[1]	Change		**2016**	2015[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,262**	1,208	54	4	**3,688**	3,413	275	8
Operating costs	**1,002**	934	68	7	**2,937**	2,676	261	10
EBITDA	**260**	274	(14)	(5)	**751**	737	14	2
Depreciation & amortisation	**52**	50	2	4	**156**	158	(2)	(1)
Operating profit	**208**	224	(16)	(7)	**595**	579	16	3
Capital expenditure	**54**	46	8	17	**165**	154	11	7
Operating cash flow	**162**	353	(191)	(54)	**550**	624	(74)	(12)

Revenue was up 4% with an 8% increase in broadband and TV revenue and a 3% increase in calls and lines. Consumer 12-month rolling ARPU increased 8% to £39.4 per month driven by broadband, BT Sport and BT Mobile.

Across BT we added 83,000 retail broadband customers, representing 44% of the DSL and fibre broadband market net additions. Superfast fibre broadband growth continued with 260,000 retail net additions, taking our customer base to 4.7m. Of our broadband customers, 51% are now on fibre.

As part of our ongoing investment in improving customer experience we recruited and commenced training for around 500 new UK and Ireland contact centre roles in the quarter, with around 900 roles to be filled in the final quarter of the year. Following two years of development we have begun to deploy new tools to our agents and have given over 40% of our service agents an additional 100 hours of training to enable them to deliver better service in line with our new enhanced processes. The remaining agents will be trained over the coming months.

We've announced a crackdown on nuisance calls and launched a new free service, BT Call Protect, which is capable of diverting 30 million such calls per week. The new service analyses large amounts of live data to identify rogue numbers and add them to a BT blacklist. For calls not captured by the technology, customers will be able compile their own personal blacklist, by dialling 1572 after receiving the call or by going online.

BT Sport's average audience figures increased 15% excluding the Showcase and digital channels. We have announced that all BT Sport customers will gain free access to the BoxNation channel from early 2017. In addition, at least 20 Saturday night events, including World, European, British and Commonwealth title fights will be shown on BT Sport channels. BT Sport will further enhance sports fans' viewing experiences with the launch of Dolby Atmos sound, which we'll soon be making available to BT Sport Ultra HD customers.

Across BT we added 52,000 TV customers, growing our total TV base to 1.7m. We announced plans to transform our TV service over the coming months, introducing a new user experience with easy access to channels and on demand content, and a new BT TV App. The new BT TV App will be available to all BT TV customers and will provide a seamless TV experience in and out of the home, with the ability to start watching content on the home box and continue on the app and vice versa.

In November we launched Plusnet Mobile. Using the EE network, Plusnet Mobile offers 4G tariffs on SIM only, rolling 30-day contracts. And BT Mobile launched its Family SIM service for mobiles and tablets, offering families up to five SIMs on one contract, each with individual allowances and with discounts that increase with the number of SIMs.

Operating costs increased 7% as a result of our investment in contact centre onshoring, which we expect to continue into Q4, our new FA Premier League rights contract and the growth of our mobile handset business. EBITDA was down 5%. Depreciation and amortisation was up 4% and operating profit was down 7%.

Capital expenditure was up 17% and operating cash flow decreased 54% as a result of adverse working capital movements relating to the timing of our FA Premier League rights payments paid in December this year compared with January in the prior financial year.

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

EE

	Third quarter to 31 December[1]		Nine months to 31 December[1]	
	2016	Change	**2016**	Change
	£m	%	**£m**	%
Revenue	**1,311**		**3,831**	
- underlying adjusted for the acquisition of EE		2		-
Operating costs	**1,034**		**2,991**	
EBITDA	**277**		**840**	
Depreciation & amortisation	**203**		**599**	
Operating profit	**74**		**241**	
Capital expenditure	**153**		**452**	
Operating cash flow	**141**		**463**	

Revenue was £1,311m, reflecting postpaid mobile revenue of £1,049m, prepaid mobile revenue of £104m, fixed broadband revenue of £70m and equipment sales of £88m. Underlying revenue[2] adjusted for the acquisition of EE was up 2%, turning to growth for the first time, mainly due to additional revenue from our 'more for more' pricing strategy. Without the £30m impact of regulation underlying revenue[2] adjusted for the acquisition of EE was up 4%.

At the end of the quarter the total BT mobile base was 30.2m. We added 276,000 postpaid mobile customers, taking the postpaid base to 16.7m. Postpaid churn[3] remains low at 1.1% displaying sustained customer loyalty. Our prepaid customers reduced by 326,000, in line with industry trends, taking the base to 7.3m. Our 4G customer base reached 18.2m. Monthly mobile ARPUs[3] were £26.7 for postpaid customers, and £4.7 for prepaid customers across the Group.

We continue to work towards our rollout of 4G geographic coverage to 92% of the UK by September 2017 and 95% by the end of December 2020. Our 4G coverage reached 75% of the UK's landmass (99% 4G population coverage), the largest of any UK operator. We have also started the "Clear on Coverage" campaign, to encourage UK mobile operators to give clearer information about where customers can expect to get a mobile signal. EE continues to be recognised as the UK's leading mobile network in independent surveys, named fastest in the Ofcom Smartphone Cities 2016 report and first or joint first in all 16 of the RootMetrics H2 2016 tests.

In November, we switched on the first 700 sites using 800MHz spectrum, improving geographic and in-building coverage. Our solution for the Emergency Services Network remains on schedule for delivery in September 2017, and we've now received planning consent for over 99% of the new base station sites needed for the contract.

We remain focused on improving customer experience and in December achieved our goal of handling 100% of EE customer contact centre calls in the UK and Ireland.

We've now extended our three-tier pricing structure to our SIM only, 4G wi-fi and tablet plans as part of our 'more for more' pricing strategy.

Operating costs were £1,034m, resulting in EBITDA of £277m. Underlying EBITDA[2] adjusted for the acquisition of EE was down 7%, mainly due to the increased cost of investment in the latest range of devices. Depreciation and amortisation was £203m.

Capital expenditure was £153m. Adjusted for the acquisition of EE[4], capital expenditure was up 4%. Operating cash flow was £141m.

[1] No comparative information is shown as EE was acquired by BT on 29 January 2016. Note that these are not the results of EE Limited; see note 1 to the condensed consolidated financial statements

[2] Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015

[3] From Q3 2016/17 the ARPU and postpaid churn calculations includes mobile customers across BT; ARPU was previously reported for EE Ltd customers and churn for EE LoB

[4] Includes EE's historical financial information as though it had been part of the group from 1 April 2015, under the new organisational structure

Business and Public Sector

	Third quarter to 31 December				Nine months to 31 December			
	2016	2015[1]	Change		**2016**	2015[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,190**	1,035	155	15	**3,536**	3,051	485	16
- underlying excluding transit adjusted for the acquisition of EE				(6)				(5)
Operating costs	**797**	694	103	15	**2,399**	2,092	307	15
EBITDA	**393**	341	52	15	**1,137**	959	178	19
Depreciation & amortisation	**88**	58	30	52	**264**	193	71	37
Operating profit	**305**	283	22	8	**873**	766	107	14
Capital expenditure	**74**	38	36	95	**186**	106	80	75
Operating cash flow	**302**	289	13	4	**860**	654	206	31

Revenue was up 15%, mainly reflecting the revenue generated from the inclusion of SME and corporate customers acquired with EE. Underlying revenue[2] excluding transit adjusted for the acquisition of EE was down 6%, reflecting declines in the public sector.

Public Sector and Major Business revenue was down 15%, with the inclusion of EE revenue more than offset by the decline in public sector revenue. Challenges in the public sector remain substantial as we have a small number of large contracts coming to an end. We're experiencing a faster wind down than we expected and the current market is not providing the opportunity to replace these with profitable new business.

Corporate revenue increased 49% and SME revenue was up 49%, due to the addition of EE customers. Corporate saw continued growth in calls and lines ARPU, while SME benefitted from an increase in revenue from IP lines, partly offset by a decline in traditional switch revenue. The higher revenue in each was also driven by growth in mobile, with strong demand for new handsets driving higher acquisition costs.

Foreign exchange movements had a £17m positive impact on Republic of Ireland revenue, where underlying revenue[2] excluding transit was up 11% due to growth in inbound voice services and a one-off equipment sale.

Order intake was up 16% to £856m with the inclusion of EE orders offsetting the public sector decline driven by market conditions. On a rolling 12-month basis order intake was down 8% to £3,213m.

We re-signed a four-year deal with Royal Mail Group for wide-ranging network and ICT services, covering voice, data, and customer contact centres. We signed a new deal to provide mobile voice services to the recruitment company Michael Page. And our network contract with Surrey County Council was extended for a further two years.

Operating costs increased 15% as a result of EE and EBITDA was up 15%. Underlying EBITDA[2] adjusted for the acquisition of EE was down 8%, reflecting the revenue decline in public sector. Given the intensifying challenges in public sector including the tough prior year comparator for Q4, we expect a double-digit percentage decline in Q4 underlying EBITDA[2] adjusted for the acquisition of EE. Depreciation and amortisation was up £30m and operating profit grew 8%, driven by the impact of EE.

Capital expenditure was up £36m. Adjusted for the acquisition of EE[3], this was up £22m. Operating cash flow was £13m higher reflecting the £52m increase in EBITDA offset by the higher capex and timing of working capital movements.

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

Global Services

	Third quarter to 31 December				Nine months to 31 December			
	2016	2015[1]	Change		**2016**	2015[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,398**	1,299	99	8	**4,057**	3,701	356	10
- underlying excluding transit adjusted for the acquisition of EE				(7)				(1)
Operating costs	**1,358**	1,168	190	16	**3,766**	3,407	359	11
EBITDA	**40**	131	(91)	(69)	**291**	294	(3)	(1)
Depreciation & amortisation	**117**	100	17	17	**331**	307	24	8
Operating (loss) profit	**(77)**	31	(108)	n/m	**(40)**	(13)	(27)	n/m
Capital expenditure	**69**	89	(20)	(22)	**260**	262	(2)	(1)
Operating cash flow	**(115)**	23	(138)	n/m	**(340)**	(221)	(119)	(54)

The financial performance of Global Services is impacted by the outcome of our investigation into our Italian business. This is detailed on page 5.

Revenue was up 8% including a £172m positive impact from foreign exchange movements whilst transit revenue was down £1m. Underlying revenue[2] excluding transit adjusted for the acquisition of EE was down 7% and excluding the revenues of our Italian business was down 2%.

Underlying revenue[2] excluding transit adjusted for the acquisition of EE was up 6% in the UK mainly due to strong IP Exchange volumes including the benefit of traffic migrated from the Americas[3] as we have rationalised our nodes. In Continental Europe underlying revenue[2] excluding transit was down 15% and excluding the revenues of our Italian business it was flat. In the Americas[3] underlying revenue[2] was down 8% mainly due to the ongoing impact of a major customer insourcing services, and the migration of IP Exchange traffic to the UK. In AMEA[4] underlying revenue[2] was down 17%, due to milestone-related revenue in the prior year.

We signed a contract with SNCF to provide secure remote access for around 100,000 employees and consolidated our relationship with Grupo Santander. In addition, we extended our contract with Dixons Carphone to provide their voice, data and wi-fi services in the UK. However, total order intake was £1.2bn in the quarter, down 14% and on a rolling 12-month basis was £5.0bn, down 8% year on year, reflecting challenging international corporate markets. We have made less progress in developing our pipeline in these markets which has impacted our financial outlook.

We remain confident that we have a strong combination of services, skills and networks. During the quarter, we continued to build on our Cloud of Clouds portfolio strategy by providing customers with direct connectivity to SAP solutions hosted in T-Systems' data centres. We also announced an acceleration of our investments in dynamic network services, including new technology for our future software-defined WAN service. By the end of the quarter, our overall cloud collaboration portfolio was being used by more than one million employees of global organisations. We have expanded availability of our standalone Distributed Denial of Service (DDoS) mitigation service to additional countries in Europe. And we deployed a cloud-based DDoS service in Latin America.

Operating costs were up 16%, reflecting EE, the impact of foreign exchange movements and the impact of our investigation into our Italian business. Underlying operating costs[2] excluding transit adjusted for the acquisition of EE were up 2%. EBITDA was down 69%. Underlying EBITDA[2] adjusted for the acquisition of EE was down 78% and excluding the results of our Italian business was down 8%. Depreciation and amortisation was up 17% due to the timing of recognition on certain contracts, contributing to an operating loss of £77m.

Capital expenditure was down 22% and operating cash was an outflow of £115m reflecting the impact of cash outflows in our Italian business as we unwind the effects of improper working capital transactions.

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

Wholesale and Ventures

	Third quarter to 31 December				Nine months to 31 December			
	2016	2015[1]	Change		**2016**	2015[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**528**	578	(50)	(9)	**1,568**	1,731	(163)	(9)
- underlying excluding transit adjusted for the acquisition of EE				(3)				(4)
Operating costs	**317**	396	(79)	(20)	**954**	1,189	(235)	(20)
EBITDA	**211**	182	29	16	**614**	542	72	13
Depreciation & amortisation	**76**	57	19	33	**227**	186	41	22
Operating profit	**135**	125	10	8	**387**	356	31	9
Capital expenditure	**53**	45	8	18	**154**	154	-	-
Operating cash flow	**151**	166	(15)	(9)	**440**	385	55	14

Revenue was down 9% with underlying revenue[2] excluding transit adjusted for the acquisition of EE down 3%, reflecting a continued decline in Partial Private Circuits and call volumes.

Managed Solutions revenue was down 40%, in line with last quarter's performance, as last year included revenue from contracts with EE which is no longer recognised, given the acquisition and reorganisation of EE within the group.

Data and Broadband revenue was down 8% reflecting the continuing decline in Partial Private Circuits and as services previously provided to EE are no longer recognised as revenue. Although we are seeing good growth in fibre broadband, the market remains competitive and we continue to see the migration of broadband lines to Local Loop Unbundling (LLU). Ethernet delivered another good quarter with a 14% increase in the rental base to 42,800.

Voice revenue was down 24% due to the ongoing decline in call volumes and last year benefiting from EE revenue which is no longer recognised given the acquisition and reorganisation of EE within the group.

Mobile generated revenue of £58m with most of this coming from EE's MVNO business.

We continue to develop our Ventures businesses which generated revenue of £77m. Our Fleet business was voted Van and Truck Fleet Management Company of the Year and Supplier of the Year at the annual Commercial Fleet Awards. We also launched our Pelipod secure storage offering. This speeds up and simplifies the supply chain that serves field engineers working throughout the UK.

We announced the launch of a new service called LinkUK, which will see sleek, ultramodern kiosks rolled out to major high streets across the capital. Londoners will benefit from the fastest free public wi-fi available, free UK landline and mobile standard rate calls and a range of other free digital services, thanks to a new partnership between BT, Intersection and Primesight.

Order intake of £1,041m was up 205% on last year and was £2,092m on a rolling 12-month basis. We were pleased to re-sign a five-year deal to continue providing wholesale mobile network services to Virgin Media. Our order intake also included the ten-year digital advertising contract for LinkUK.

Operating costs decreased 20% and EBITDA increased 16%. Underlying EBITDA[2] adjusted for the acquisition of EE was down 4%. Depreciation and amortisation increased 33% and operating profit increased 8%.

Capital expenditure was £53m, broadly in line with the second quarter, and operating cash flow was £151m.

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

Openreach

	Third quarter to 31 December				Nine months to 31 December			
	2016	2015[1]	Change		**2016**	2015[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,284**	1,294	(10)	(1)	**3,809**	3,810	(1)	-
Operating costs	**608**	617	(9)	(1)	**1,871**	1,849	22	1
EBITDA	**676**	677	(1)	-	**1,938**	1,961	(23)	(1)
Depreciation & amortisation	**349**	320	29	9	**1,014**	984	30	3
Operating profit	**327**	357	(30)	(8)	**924**	977	(53)	(5)
Capital expenditure	**409**	321	88	27	**1,103**	1,071	32	3
Operating cash flow	**362**	419	(57)	(14)	**1,053**	1,015	38	4

Revenue was down 1% with regulatory price reductions having a negative impact of around £60m, or 5% of revenue. This impact of regulation was partly offset by 31% growth in fibre broadband revenue.

We continue to extend the reach of fibre broadband beyond our commercial footprint as part of the BDUK programme. We passed around a quarter of a million properties, which means our superfast fibre broadband network is now available to more than 26m premises.

We achieved our highest ever fibre broadband net connections at 498,000, taking the number of homes and businesses connected to our fibre broadband network to 7.2m, or 27% of those passed. Service providers other than BT added 238,000 or 48% of the total net connections, demonstrating the market-wide demand for fibre. Over the past four years average UK broadband speeds have almost tripled to 37Mbps, rising more than 25% in the past year alone, according to Ofcom's Connected Nations Report 2016.

The UK broadband market[2] grew by 189,000 connections compared with 182,000 in the prior year and the physical line base increased by 50,000.

Our plans for deploying ultrafast broadband are on track and we're now offering to connect FTTP free of charge to developers of 30 or more homes. We continue to extend our G.fast pilot coverage and, combined with FTTP, we'll be able to offer ultrafast broadband to 500,000 homes and businesses by April 2017.

We're also investing to improve the experience of our Openreach customers. We're ahead on all 60 copper minimum service levels set by Ofcom and we've halved missed appointments year on year. We continue to clear the tail of long outstanding Ethernet orders, which we expect will carry on for a number of quarters. Operating costs were down 1%. This reflects lower leaver payments in the quarter of £2m (Q3 2015/16: £22m) being partly offset by the cost of our focus on customer experience. EBITDA was flat and depreciation and amortisation was up 9% due to the timing of completion of capital investments, resulting in operating profit down 8%.

We're moving forward with our plans to make Openreach more independent and transparent by appointing Mike McTighe Chairman of the new Openreach Board that will begin to operate over the next few months. The Board will be accountable for setting the strategy and overseeing and managing the performance of Openreach, working with the CEO and management team. It will ensure that Openreach continues to treat all customers equally whilst investing in better service, broader coverage and faster broadband speeds.

Capital expenditure was £409m, up £88m or 27% reflecting our ongoing investment in fibre coverage and capacity, and delivery of more complex Ethernet circuits. This was after gross grant funding of £45m (Q3 2015/16: £80m) directly related to our activity on the BDUK programme build and offset by the deferral of £32m of the total grant funding (Q3 15/16: £22m). We continue to expect gross capital expenditure in 2016/17 to be higher than the previous year.

Operating cash flow was down 14% largely due to the timing of customer receipts.

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

Financial statements

Group income statement

For the third quarter to 31 December 2016

	Before specific items	Specific Items	Total
	£m	£m	£m
Revenue	6,126	2	**6,128**
Operating costs	(5,151)	(248)	**(5,399)**
Operating profit	975	(246)	**729**
Finance expense	(151)	(54)	**(205)**
Finance income	2	-	**2**
Net finance expense	(149)	(54)	**(203)**
Share of post tax profit (losses) of associates and joint ventures	-	-	**-**
Profit before tax	826	(300)	**526**
Tax	(171)	19	**(152)**
Profit for the period	655	(281)	**374**
Earnings per share			
- basic	6.6p		**3.8p**
- diluted	6.5p		**3.7p**

Group income statement

For the third quarter to 31 December 2015

	Before specific items[1]	Specific Items	Total[1]
	£m	£m	£m
Revenue	4,587	43	**4,630**
Operating costs	(3,596)	(53)	**(3,649)**
Operating profit	991	(10)	**981**
Finance expense	(120)	(56)	**(176)**
Finance income	25	-	**25**
Net finance expense	(95)	(56)	**(151)**
Share of post tax profits of associates and joint ventures	2	-	**2**
Profit before tax	898	(66)	**832**
Tax	(173)	107	**(66)**
Profit for the period	725	41	**766**
Earnings per share			
- basic	8.7p		**9.2p**
- diluted	8.6p		**9.0p**

[1] Revised to reflect the outcome of the investigation into our Italian business. See Note 1 to the condensed consolidated financial statements

Group income statement
For the nine months to 31 December 2016

	Before specific items	Specific Items	Total
	£m	£m	£m
Revenue	17,954	(14)	**17,940**
Operating costs	(14,997)	(414)	**(15,411)**
Operating profit	2,957	(428)	**2,529**
Finance expense	(459)	(159)	**(618)**
Finance income	10	-	**10**
Net finance expense	(449)	(159)	**(608)**
Share of post tax losses of associates and joint ventures	(7)	-	**(7)**
Profit before tax	2,501	(587)	**1,914**
Tax	(471)	85	**(386)**
Profit for the period	2,030	(502)	**1,528**
Earnings per share			
- basic	20.4p		**15.4p**
- diluted	20.3p		**15.3p**

Group income statement
For the nine months to 31 December 2015

	Before specific items[1]	Specific Items	Total[1]
	£m	£m	£m
Revenue	13,239	203	**13,442**
Operating costs	(10,652)	(226)	**(10,878)**
Operating profit	2,587	(23)	**2,564**
Finance expense	(373)	(169)	**(542)**
Finance income	34	-	**34**
Net finance expense	(339)	(169)	**(508)**
Share of post-tax profits of associates and joint ventures	6	-	**6**
Profit before tax	2,254	(192)	**2,062**
Tax	(434)	130	**(304)**
Profit for the period	1,820	(62)	**1,758**
Earnings per share			
- basic	21.8p		**21.0p**
- diluted	21.5p		**20.8p**

[1] Revised to reflect the outcome of the investigation into our Italian business. See Note 1 to the condensed consolidated financial statements

Group cash flow statement

For the third quarter and nine months to 31 December

	Third quarter to 31 December		Nine months to 31 December	
	2016	2015[1]	**2016**	2015[1]
	£m	£m	**£m**	£m
Cash flow from operating activities				
Profit before tax	526	832	1,914	2,062
Share-based payments	17	14	50	46
Profit on disposal of subsidiaries and interest in associates	(2)	-	(16)	-
Share of post-tax (profits) losses of associates and joint ventures	-	(2)	7	(6)
Net finance expense	203	151	608	508
Depreciation and amortisation	895	593	2,619	1,844
(Increase) decrease in working capital	(95)	208	(303)	(436)
Provisions, pensions and other non-cash movements[2]	135	(5)	86	(633)
Cash inflow from operating activities[3]	**1,679**	1,791	**4,965**	3,385
Tax paid	(164)	(98)	(382)	(162)
Net cash inflow from operating activities	**1,515**	1,693	**4,583**	3,223
Cash flow from investing activities				
Interest received	1	2	6	7
Dividends received from associates and joint ventures	2	-	2	17
Acquisition of subsidiaries[4] and joint ventures	(3)	(3)	54	(5)
Purchases of property, plant and equipment and software	(759)	(582)	(2,222)	(1,802)
Proceeds on disposal of property, plant and equipment	8	-	9	4
Purchase of non-current asset investments	(1)	-	(22)	-
Purchases of current financial assets	(2,369)	(2,118)	(6,934)	(5,743)
Proceeds on disposal of current financial assets	2,379	1,078	7,518	6,897
Net cash outflow generated from investing activities	**(742)**	(1,623)	**(1,589)**	(625)
Cash flow from financing activities				
Interest paid	(187)	(183)	(474)	(436)
Equity dividends paid	(4)	(5)	(955)	(710)
Proceeds from bank loans and bonds	1	-	3	1
Repayment of borrowings[5]	(680)	(4)	(1,072)	(1,275)
Cash flows from derivatives related to net debt	(70)	17	127	(49)
Net repayment on facility loans	1	-	(618)	-
Proceeds on issue of own shares	6	3	66	86
Repurchase of ordinary share capital	-	(35)	(206)	(285)
Net cash outflow from financing activities	**(933)**	(207)	**(3,129)**	(2,668)
Net decrease in cash and cash equivalents	**(160)**	(137)	**(135)**	(70)
Opening cash and cash equivalents	514	469	459	407
Net decrease in cash and cash equivalents	(160)	(137)	(135)	(70)
Effect of exchange rate changes	6	8	36	3
Closing cash and cash equivalents[6]	**360**	340	**360**	340

[1] Revised to reflect the outcome of the investigation into our Italian business. See Note 1 to the condensed consolidated financial statements
[2] Includes pension deficit payments of £6m for the quarter (Q3 2015/16: £nil) and £19m for the nine months to 31 December 2016 (31 December 2015: £625m)
[3] Includes cash flows relating to TV programme rights
[4] Acquisitions and disposals of subsidiaries are shown net of cash acquired or disposed of and include true up of consideration following the audit of the completion balance sheet relating to the acquisition of EE
[5] Repayment of borrowings includes the impact of hedging and repayment of lease liabilities
[6] Net of bank overdrafts of £75m at 31 December 2016 (31 December 2015: £605m)

Group balance sheet

	31 December 2016	31 December 2015[1]	31 March 2016[1]
	£m	£m	£m
Non-current assets			
Intangible assets	15,154	3,082	15,436
Property, plant and equipment	16,256	13,606	15,971
Derivative financial instruments	2,256	1,190	1,462
Investments	42	43	46
Associates and joint ventures	26	21	24
Trade and other receivables	248	177	218
Deferred tax assets	1,937	1,115	1,247
	35,919	19,234	34,404
Current assets			
Programme rights	437	380	225
Inventories	236	101	189
Trade and other receivables	4,009	3,176	3,972
Current tax receivable	65	65	65
Derivative financial instruments	217	51	177
Investments	2,359	2,377	2,918
Cash and cash equivalents	435	945	996
	7,758	7,095	8,542
Current liabilities			
Loans and other borrowings	2,655	2,198	3,736
Derivative financial instruments	11	19	48
Trade and other payables	7,460	5,309	7,418
Current tax liabilities	252	333	271
Provisions	273	107	171
	10,651	7,966	11,644
Total assets less current liabilities	**33,026**	18,363	31,302
Non-current liabilities			
Loans and other borrowings	11,016	6,816	11,025
Derivative financial instruments	858	781	863
Retirement benefit obligations	11,083	5,858	6,382
Other payables	1,197	1,038	1,106
Deferred tax liabilities	1,198	878	1,262
Provisions	547	386	552
	25,899	15,757	21,190
Equity			
Ordinary shares	499	419	499
Share premium	1,051	1,051	1,051
Own shares	(104)	(94)	(115)
Merger reserve	6,647	998	8,422
Other reserves	986	553	685
Retained loss	(1,952)	(321)	(430)
Total equity	**7,127**	2,606	10,112
	33,026	18,363	31,302

[1] Revised to reflect gross position for cash pooling arrangements and the outcome of the investigation into our Italian business. 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 and nine months to 31 December 2016 and 2015 together with the audited balance sheet at 31 March 2016.

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 2016 and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

These financial statements do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year to 31 March 2016 were approved by the Board of Directors on 4 May 2016, published on 19 May 2016, and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006. These financial statements should be read in conjunction with the annual financial statements for the year to 31 March 2016. The EE line of business results do not constitute the entirety of EE Limited.

Revision of segment results

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

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

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

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

Revision of cash pooling arrangements

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

As a result the group has revised the comparative balance sheets at 31 December 2015 and 31 March 2016. The impact is to increase cash and cash equivalents and short term loans and other borrowings by £589m at 31 December 2015 and £499m at 31 March 2016.

Investigation into our Italian business

On page 5 we discussed our investigations into our Italian business which have revealed inappropriate behaviour, improper accounting practices and the need to reassess the financial position of our Italian business in light of its economic outlook and a more cautious view in light of the losses generated by that business. The improper practices included a complex set of improper sales, purchase, factoring and leasing transactions. The investigation into the financial position of our Italian business is now substantially complete.

The resulting adjustments amount to £268m attributable to prior year errors, and £245m of changes in estimates resulting from the reassessment of the financial position and outlook for the Italian business.

Prior year errors

The 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 have concluded that errors were not material to any of the Group's previously issued financial statements.

We have also assessed whether the correction of the cumulative effect of these errors in the current year would be material to the current year and concluded that correcting these in the current year would be material. Therefore we consider it appropriate to correct the errors by revising the prior years to avoid misstating the current year.

In assessing the ageing of the errors we have made some assumptions. Due to the complex nature of the improper transactions we cannot with absolute certainty identify all the interrelated items which may have transferred in and out of balance sheet categories in prior periods. We have therefore accounted for them in the most recent period that we were able to identify.

The effect of the prior year errors on the income statement, balance sheet and cash flow statements for the prior periods is set out in Additional Information. In total this amounted to a £268m reduction in total equity in our 31 March 2016 balance sheet.

Changes in estimates

In light of the errors identified we have also reviewed the value of the assets and liabilities on the balance sheet of our Italian business as at 31 March 2016. We took into account any changes in facts or circumstances since that date in determining whether there was a need to change an estimate. This exercise required a level of judgement, in many cases taking a more cautious view based on our current understanding of circumstances surrounding each item. The total impact of £245m is presented within specific items given the size and one-off nature, £145m of which was recognised in the second quarter and a further £100m in this quarter. Changes in facts or circumstance of items arising in the current year have been recorded in Global Services trading results for the quarter ended 31 December 2016.

2 Pensions

	31 December 2016	30 September 2016	31 March 2016
	£bn	£bn	£bn
IAS 19 liabilities - BTPS	(59.3)	(59.9)	(49.1)
Assets - BTPS	48.9	49.1	43.1
Other schemes	(0.7)	(0.7)	(0.4)
Total IAS 19 deficit, gross of tax	**(11.1)**	(11.5)	(6.4)
Total IAS 19 deficit, net of tax	**(9.2)**	(9.5)	(5.2)
Discount rate (nominal)	2.50%	2.20%	3.30%
Discount rate (real)	(0.87)%	(0.87)%	0.44%
RPI inflation	3.40%	3.10%	2.85%
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	1.0% below RPI until 31 March 2017 and 1.2% below RPI thereafter

Additional Information

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.

	Third quarter to 31 December		Nine months to 31 December	
	2016	2015[1]	**2016**	2015[1]
	£m	£m	**£m**	£m
Reported profit before tax	**526**	832	**1,914**	2,062
Share of post-tax (profits) losses of associates and joint ventures	-	(2)	7	(6)
Net finance expense	203	151	608	508
Operating profit	**729**	981	**2,529**	2,564
Depreciation and amortisation	895	593	2,619	1,844
Reported EBITDA	**1,624**	1,574	**5,148**	4,408
Specific items	246	10	428	23
Adjusted EBITDA	**1,870**	1,584	**5,576**	4,431

Free cash flow

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

	Third quarter to 31 December		Nine months to 31 December	
	2016	2015[1]	**2016**	2015[1]
	£m	£m	**£m**	£m
Cash generated from operations	**1,679**	1,791	**4,965**	3,385
Tax paid	(164)	(98)	(382)	(162)
Net cash inflow from operating activities	**1,515**	1,693	**4,583**	3,223
Add back pension deficit payments	6	-	19	625
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	(751)	(582)	(2,213)	(1,798)
Interest received	1	2	6	7
Purchase of non-current asset investments	(1)	-	(22)	-
Dividends received from associates and joint ventures	2	-	2	17
Included in cash flows from financing activities				
Interest paid	(187)	(183)	(474)	(436)
Reported free cash flow	**585**	930	**1,901**	1,638
Net cash outflow from specific items	32	18	146	100
Cash tax benefit of pension deficit payments	(11)	(44)	(99)	(159)
Normalised free cash flow	**606**	904	**1,948**	1,579

[1] Revised to reflect gross position for cash pooling arrangements and the outcome of the investigation into our Italian business. See Note 1 to the condensed consolidated financial statements

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.

	31 December 2016	31 December 2015[1]	31 March 2016[1]
	£m	£m	£m
Loans and other borrowings[1]	13,671	9,014	14,761
Cash and cash equivalents	(435)	(945)	(996)
Current investments	(2,359)	(2,377)	(2,918)
	10,877	5,692	10,847
Adjustments:			
To re-translate currency denominated balances at swapped rates where hedged[2]	(1,564)	(440)	(652)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method[3]	(332)	(237)	(357)
Net debt	**8,981**	5,015	9,838

[1] Includes overdrafts of £75m at 31 December 2016 (31 December 2015: £605m; 31 March 2016: £537m)
[2] The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency
[3] Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at balance sheet date

Reconciliation of trends in underlying revenue and underlying operating costs excluding transit adjusted for the acquisition of EE

Trends in underlying revenue and underlying operating costs excluding transit adjusted for the acquisition of EE 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 adjusted for the acquisition of EE, are set out below.

	Third quarter to 31 December 2016	Nine months to 31 December 2016
	%	%
Increase in reported revenue	**32.3**	**33.5**
Specific items	1.2	2.1
Increase in adjusted revenue	**33.5**	**35.6**
Adjusted for the acquisition of EE[1]	(32.4)	(33.6)
Increase in adjusted revenue adjusted for the acquisition of EE[1]	**1.1**	**2.0**
Transit revenue	0.3	0.2
Acquisitions and disposals	0.2	0.1
Foreign exchange movements	(3.1)	(2.2)
Decrease in underlying revenue excluding transit adjusted for the acquisition of EE	**(1.5)**	**0.1**

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

	Third quarter to 31 December 2016
	%
Increase in reported operating costs	**48.0**
Depreciation and amortisation	(0.6)
Increase in reported operating costs before depreciation and amortisation	**47.4**
Specific items	(10.5)
Increase in adjusted operating costs before depreciation and amortisation	**36.9**
Adjustment for the acquisition of EE[1]	(31.3)
Increase in adjusted operating costs adjusted for the acquisition of EE[1] before depreciation and amortisation	**5.6**
Transit costs	0.1
Acquisitions and disposals	0.2
Foreign exchange movements	(4.1)
Increase in underlying operating costs excluding transit adjusted for the acquisition of EE	**1.8**
Rounded	**2**

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

Reconciliation of trends in underlying earnings before interest, tax, depreciation and amortisation adjusted for the acquisition of EE

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 adjusted for the acquisition of EE is provided below.

	Third quarter to 31 December 2016	Nine months to 31 December 2016
	%	%
Increase in reported EBITDA	**3.1**	**16.8**
Specific items	15.0	9.0
Increase in adjusted EBITDA	**18.1**	**25.8**
Adjustment for the acquisition of EE[1]	(25.7)	(27.6)
Decrease in adjusted EBITDA adjusted for the acquisition of EE[1]	**(7.6)**	**(1.8)**
Acquisitions and disposals	0.1	-
Foreign exchange movements	(0.6)	(0.5)
Decrease in underlying EBITDA adjusted for the acquisition of EE	**(8.1)**	**(2.3)**
Rounded	**(8)**	**(2)**

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

Revision of prior period statements

Group income statement
For the third quarter to 31 December 2015

	As published[1]	Adjustment[2]	Revised
	£m	£m	£m
Revenue	4,637	(7)	**4,630**
Operating costs	(3,626)	(23)	**(3,649)**
Operating profit	1,011	(30)	**981**
Profit before tax	862	(30)	**832**
Profit for the period	796	(30)	**766**
Earnings per share – basic	9.5p	(0.3)p	**9.2p**
Earnings per share – diluted	9.4p	(0.4)p	**9.0p**

Group income statement
For the nine months to 31 December 2015

	As published[1]	Adjustment[2]	Revised
	£m	£m	£m
Revenue	13,456	(14)	**13,442**
Operating costs	(10,818)	(60)	**(10,878)**
Operating profit	2,638	(74)	**2,564**
Profit before tax	2,136	(74)	**2,062**
Profit for the period	1,832	(74)	**1,758**
Earnings per share – basic	21.9p	(0.9)p	**21.0p**
Earnings per share – diluted	21.7p	(0.9)p	**20.8p**

Group income statement
For the year ended to 31 March 2016

	As published[1]	Adjustment[2]	Revised
	£m	£m	£m
Revenue	19,042	(30)	**19,012**
Operating costs	(15,307)	(92)	**(15,399)**
Operating profit	3,735	(122)	**3,613**
Profit before tax	3,029	(122)	**2,907**
Profit for the period	2,588	(122)	**2,466**
Earnings per share – basic	29.9p	(1.4)p	**28.5p**
Earnings per share – diluted	29.6p	(1.4)p	**28.2p**

[1] After specific items, which are defined on page 3
[2] Revised to reflect the outcome of the investigation into our Italian business. See Note 1 to the condensed consolidated financial statements

Group balance sheet

At 31 December 2015

	As published	Adjustment[1]	Revised
	£m	£m	£m
Non-current assets			
Intangible assets	3,082	-	3,082
Property, plant and equipment	13,627	(21)	13,606
Trade and other receivables	189	(12)	177
Other non-current assets	2,369	-	2,369
	19,267	(33)	19,234
Current assets			
Trade and other receivables	3,247	(71)	3,176
Cash and cash equivalents	356	589	945
Other current assets	2,974	-	2,974
	6,577	518	7,095
Current liabilities			
Loans and other borrowings	1,608	590	2,198
Trade and other payables	5,205	104	5,309
Other current liabilities	459	-	459
	7,272	694	7,966
Total assets less current liabilities	18,572	(209)	18,363
Non-current liabilities			
Loans and other borrowings	6,822	(6)	6,816
Retirement benefit obligations	5,858	-	5,858
Other non-current liabilities	3,082	1	3,083
	15,762	(5)	15,757
Equity			
Ordinary shares	419	-	419
Other Reserves	2,496	12	2,508
Retained loss	(105)	(216)	(321)
Total equity	2,810	(204)	2,606
	18,572	(209)	18,363

[1] Revised to reflect gross position for cash pooling arrangements and the outcome of the investigation into our Italian business. See Note 1 to the condensed consolidated financial statements

Group balance sheet

At 31 March 2016

	As published	Adjustment[1]	Revised
	£m	£m	£m
Non-current assets			
Intangible assets	15,436	-	15,436
Property, plant and equipment	16,010	(39)	15,971
Trade and other receivables	233	(15)	218
Other non-current assets	2,779	-	2,779
	34,458	(54)	34,404
Current assets			
Trade and other receivables	4,063	(91)	3,972
Cash and cash equivalents	497	499	996
Other current assets	3,574	-	3,574
	8,134	408	8,542
Current liabilities			
Loans and other borrowings	3,237	499	3,736
Trade and other payables	7,289	129	7,418
Other current liabilities	490	-	490
	11,016	628	11,644
Total assets less current liabilities	31,576	(274)	31,302
Non-current liabilities			
Loans and other borrowings	11,032	(7)	11,025
Retirement benefit obligations	6,382	-	6,382
Other non-current liabilities	3,782	1	3,783
	21,196	(6)	21,190
Equity			
Ordinary shares	499	-	499
Other Reserves	10,048	(5)	10,043
Retained loss	(167)	(263)	(430)
Total equity	10,380	(268)	10,112
	31,576	(274)	31,302

[1] Revised to reflect gross position for cash pooling arrangements and the outcome of the investigation into our Italian business. See Note 1 to the condensed consolidated financial statements

Group statement of cash flow
For the quarter ended 31 December 2015

	As published	Adjustment[1]	Revised
	£m	£m	£m
Net cash flow from operating activities	1,700	(7)	**1,693**
Net cash flow from investing activities	(1,630)	7	**(1,623)**
Net cash flow from financing activities	(207)	-	**(207)**
Net increase (decrease) in cash and cash equivalents	(137)	-	**(137)**
Opening cash and cash equivalents	469	-	**469**
Effect of exchange rate changes	8	-	**8**
Closing cash and cash equivalents	340	-	**340**

Group statement of cash flow
For the nine months ended 31 December 2015

	As published	Adjustment[1]	Revised
	£m	£m	£m
Net cash flow from operating activities	3,235	(12)	**3,223**
Net cash flow from investing activities	(637)	12	**(625)**
Net cash flow from financing activities	(2,668)	-	**(2,668)**
Net increase (decrease) in cash and cash equivalents	(70)	-	**(70)**
Opening cash and cash equivalents	407	-	**407**
Effect of exchange rate changes	3	-	**3**
Closing cash and cash equivalents	340	-	**340**

Group statement of cash flow
For the year ended 31 March 2016

	As published	Adjustment[1]	Revised
	£m	£m	£m
Net cash flow from operating activities	5,179	(28)	**5,151**
Net cash flow from investing activities	(5,145)	28	**(5,117)**
Net cash flow from financing activities	42	-	**42**
Net increase (decrease) in cash and cash equivalents	76	-	**76**
Opening cash and cash equivalents	407	-	**407**
Effect of exchange rate changes	(24)	-	**(24)**
Closing cash and cash equivalents	459	-	**459**

[1] Revised to reflect the outcome of the 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 2016/17 and 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, 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, 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 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; 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.