Financial results

10 May 2012

BT GROUP PLC

RESULTS FOR THE FOURTH QUARTER AND YEAR TO 31 MARCH 2012

BT Group plc (BT.L) today announces its results for the fourth quarter and year to 31 March 2012.

Fourth quarter and full year results:

		Fourth quarter to 31 March 2012		Year to 31 March 2012	
		£m	Change	**£m**	Change
Revenue[1]		**4,875**	(4)%	**19,307**	(4)%
Underlying revenue excluding transit			(2.0)%		(1.9)%
EBITDA[1]		**1,609**	4%	**6,064**	3%
Profit before tax	- adjusted[1]	**690**	13%	**2,421**	16%
	- reported	**724**	46%	**2,445**	42%
Earnings per share	- adjusted[1]	**6.8p**	10%	**23.7p**	13%
	- reported	**8.1p**	33%	**25.8p**	33%
Free cash flow[2]		**909**	£290m	**2,522**	£299m
Net debt				**9,082**	£266m
Full year proposed dividend				**8.3p**	12%

Key points:

- Underlying revenue excluding transit down 1.9% for the year, within our target range
- EBITDA[1] target of above £6bn delivered a year early
- Free cash flow[2] of £2.5bn, up 13% and well above expectations
- Net debt up £266m after £2.0bn pension deficit payment
- Proposed final dividend of 5.7p, up 14%, giving a full year dividend of 8.3p, up 12%
- 10m homes and businesses passed with fibre, many months ahead of schedule

Outlook:
We expect

- Underlying revenue excluding transit to show an improving trend in 2013 and 2014
- Growth in EBITDA[1] in 2013 and 2014
- Normalised free cash flow (which excludes pension deficit payments and related tax credits) of £2,307m in 2012 to be broadly level in 2013 and above £2.4bn in 2014
- BT Global Services to deliver solid EBITDA growth in 2013
- BT Global Services operating cash flow to be lower in 2013 before returning to growth in 2014
- Dividends to grow by 10%–15% per year for the next three years
- Share buyback programme of around £300m in 2013

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

"In what remains a challenging environment we have delivered another year of growth in profits and free cash flow. Our financial strength has allowed us to invest in the business, make a £2bn payment into the pension fund, reward employees and deliver double digit growth in shareholder returns.

[1] Before specific items
[2] Before specific items and pension deficit payments

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"We have now passed 10m homes and businesses with our fibre roll-out. This is many months ahead of schedule and brings the benefits of super-fast broadband to families and businesses in cities, towns and rural areas across the UK. We remain the leading provider of broadband in the UK and over half a million customers are already taking our fibre-based BT Infinity product. At a time when many of our corporate customers are facing their own challenges, our investments internationally will help those seeking to expand in faster growing economies and this is reflected in £2bn of new orders won by BT Global Services this quarter.

“While we will be impacted by economic and regulatory headwinds, we expect to continue to grow profits over the next two years, with normalised free cash flow growing to above £2.4bn in 2014. We will continue to pursue our prudent financial strategy, investing in the long-term future of the business, supporting the pension scheme, paying down debt and enhancing shareholder returns.

“We have made progress again this year delivering for all our stakeholders, but we know there is more to do."

RESULTS FOR THE FOURTH QUARTER AND YEAR TO 31 MARCH 2012

Group results

	Fourth quarter to 31 March			Year to 31 March		
	2012	2011	Change	**2012**	2011	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- adjusted[1]	**4,875**	5,055	(4)	**19,307**	20,076	(4)
- reported (see Note below)	**4,875**	5,055	(4)	**18,897**	20,076	(6)
- underlying revenue excluding transit[2]			(2.0)			(1.9)
EBITDA						
- adjusted[1]	**1,609**	1,551	4	**6,064**	5,886	3
- reported	**1,595**	1,449	10	**5,891**	5,557	6
Operating profit						
- adjusted[1]	**863**	789	9	**3,092**	2,907	6
- reported	**849**	687	24	**2,919**	2,578	13
Profit before tax						
- adjusted[1]	**690**	610	13	**2,421**	2,083	16
- reported	**724**	495	46	**2,445**	1,717	42
Earnings per share						
- adjusted[1]	**6.8p**	6.2p	10	**23.7p**	21.0p	13
- reported	**8.1p**	6.1p	33	**25.8p**	19.4p	33
Full year proposed dividend				**8.3p**	7.4p	12
Capital expenditure	**695**	779	(11)	**2,594**	2,590	0
Free cash flow[3]						
- adjusted[1]	**909**	619	47	**2,522**	2,223	13
- normalised[4]	**909**	582	56	**2,307**	2,076	11
Net debt				**9,082**	8,816	3

Note: Reported revenue for the year to 31 March 2012 includes a specific charge of £410m recognised in Q2 2012 relating to a retrospective regulatory ruling in Germany, which had no impact on profits or cash.

Line of business results[1]

	Revenue			EBITDA			Operating cash flow		
	2012	2011[5]	Change	**2012**	2011	Change	**2012**	2011	Change
Fourth quarter to 31 March	**£m**	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**1,996**	2,078	(4)	**186**	184	1	**164**	70	134
BT Retail	**1,861**	1,916	(3)	**486**	476	2	**440**	432	2
BT Wholesale	**958**	1,024	(6)	**293**	321	(9)	**314**	331	(5)
Openreach	**1,301**	1,255	4	**603**	539	12	**364**	282	29
Other and intra-group items	**(1,241)**	(1,218)	(2)	**41**	31	32	**(373)**	(496)	25
Total	**4,875**	5,055	(4)	**1,609**	1,551	4	**909**	619	47
Year to 31 March									
BT Global Services	**7,809**	8,059	(3)	**627**	593	6	**183**	119	54
BT Retail	**7,393**	7,700	(4)	**1,830**	1,784	3	**1,362**	1,382	(1)
BT Wholesale	**3,923**	4,201	(7)	**1,208**	1,316	(8)	**800**	911	(12)
Openreach	**5,136**	4,930	4	**2,299**	2,132	8	**1,195**	1,078	11
Other and intra-group items	**(4,954)**	(4,814)	(3)	**100**	61	64	**(1,018)**	(1,267)	20
Total	**19,307**	20,076	(4)	**6,064**	5,886	3	**2,522**	2,223	13

[1] Before specific items. Specific items are defined below and analysed in Note 4 to the condensed consolidated financial statements
[2] Underlying revenue excluding transit is defined below
[3] Before pension deficit payments of £2,000m in Q4 2012 and FY 2012 (Q4 2011: £505m; FY 2011: £1,030m)
[4] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
[5] Restated for the impact of customer account moves. See Note 1 to the condensed consolidated financial statements

Notes:

1) Unless otherwise stated, any reference to revenue, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, operating costs, profit before tax, earnings per share (EPS) and free cash flow are measured before specific items. The commentary focuses on the trading results on an adjusted basis being before specific items. This is consistent with the way that financial performance is measured by management and is reported to the Board and the Operating Committee and assists in providing a meaningful analysis of the trading results of the group. The directors believe that presentation of the group's results in this way is relevant to the understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Specific items may not be comparable to similarly titled measures used by other companies. Reported revenue, reported EBITDA, reported operating profit, reported profit before tax, reported EPS and reported free cash flow are the equivalent unadjusted or statutory measures.

2) Underlying revenue is a measure which seeks to reflect the underlying revenue performance of the group that will contribute to long-term profitable growth. As such it excludes any increases or decreases in revenue as a result of acquisitions or disposals, any foreign exchange movements affecting revenue and any specific items. We are focusing on the trends in underlying revenue excluding transit revenue as transit traffic is low-margin and is significantly affected by reductions in mobile termination rates. Underlying costs is a measure which seeks to reflect the underlying costs of the group. As such it excludes any decreases or increases in costs as a result of acquisitions or disposals, any foreign exchange movements affecting costs and any specific items.

3) Unless otherwise stated, the references 2011, 2012, 2013 and 2014 are the financial years to 31 March 2011, 2012, 2013 and 2014, respectively, except in relation to our fibre roll-out plans which are based on calendar years.

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The fourth quarter and full year 2012 results presentation for analysts and investors will be held in London at 9.00am today and a simultaneous webcast will be available at www.bt.com/results

The BT Group plc Annual Report & Form 20-F 2012 is expected to be published on 24 May 2012. The Annual General Meeting of BT Group plc will be held at Old Billingsgate, 1 Old Billingsgate Walk, London, EC3R 6DX on 11 July 2012 at 11.00am.

Results for the first quarter to 30 June 2012 are expected to be announced on Wednesday 25 July 2012.

About BT

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

BT is the official communications services partner of the London 2012 Olympic and Paralympic Games. BT is also a sustainability partner of the Games and a Premier Partner of the London 2012 Cultural Olympiad.

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

For more information, visit www.btplc.com

BT Group plc

RESULTS FOR THE YEAR TO 31 MARCH 2012

GROUP RESULTS

Operating results overview for the year

Underlying revenue excluding transit decreased by 1.9%, within our target range, reflecting lower revenue from calls and lines and the challenging environment in certain markets. Adjusted revenue was 4% lower at £19,307m with transit revenue down by £392m (including mobile termination rate reductions of £286m), favourable foreign exchange movements of £22m and disposals of £55m. Reported revenue was down 6% reflecting the specific charge to revenue of £410m this year that had no impact on profits or cash (see Specific items below).

Total operating costs before depreciation and amortisation and specific items decreased by £933m, or 6%, to £13,630m. These costs have reduced by £2.9bn, and by £3.4bn including the reduction in capital expenditure, over the last three years. Underlying operating costs were down 6% for the year.

Net labour costs decreased by 1% to £4,812m after adjusting for certain labour related costs of £87m classified as other costs in the prior year. Leaver costs, which are included in net labour costs, increased by £40m to £97m. Payments to telecommunications operators were down 16%, reflecting lower mobile termination rates and reduced transit and wholesale call volumes. Property and energy costs were 7% lower and network operating and IT costs were 11% lower as we rationalise our networks and systems. Other operating costs decreased by 3%.

Adjusted EBITDA increased by 3% to £6,064m, which means we have delivered our original target of above £6.0bn for 2013 a year early. Foreign exchange movements had no significant impact on EBITDA in the year.

Depreciation and amortisation was flat at £2,972m reflecting the lower levels of capital expenditure over the last three years offset by higher depreciation and amortisation on shorter lived assets.

Capital expenditure was £2,594m, in line with our target for the year of around £2.6bn. We expect capital expenditure to remain at around £2.6bn in 2013.

Broadband

We added 589,000 retail broadband customers in the year, representing 54% of the broadband market net additions[1] of 1,085,000 and taking our retail broadband customer base to around 6.3m, up 10%.

Net finance expense

Net finance expense was £681m, a decrease of £164m, primarily due to lower average net debt and the repayment of higher coupon debt in the second half of 2011.

Profit before tax

Adjusted profit before tax was £2,421m, up 16%, reflecting the higher EBITDA and lower finance expense. Reported profit before tax (which includes specific items) was £2,445m, up 42%.

Tax

The effective tax rate on the profit before specific items for the year was 24.1% (2011: 21.7%). This is lower than the UK statutory rate of 26% (2011: 28%) reflecting the utilisation of tax losses. For 2013 we expect the effective tax rate to be around 23% reflecting the lower UK statutory rate.

Specific items

Specific items in the year resulted in a net credit after tax of £166m (2011: £127m net charge), the principal components of which are described below.

Following a retrospective regulatory ruling in Germany a one-off charge of £410m was recognised against revenue with an equal reduction in operating costs in the second quarter of 2012. This had no impact on profits or cash.

Specific operating costs include property rationalisation charges of £90m (2011: £88m) and BT Global Services restructuring charges of £64m (2011: £192m) principally comprising network, people and property costs. Net pension interest income was £197m (2011: £79m expense).

[1] DSL, LLU and fibre, excluding cable

The tax charge in respect of specific items was £22m (2011: £72m credit). A specific tax credit of £164m (2011: £172m) has been recognised for the re-measurement of deferred tax balances due to the change in the UK statutory tax rate to 24% from 1 April 2012.

In 2013 we expect to incur further BT Global Services restructuring costs of around £40m in relation to the rationalisation of the Infonet and Radianz networks. The property rationalisation programme has now been completed.

Earnings per share
Adjusted EPS was 23.7p, up 13%, principally reflecting the higher EBITDA and lower finance expense. Reported EPS was 25.8p, up 33%. These are based on a weighted average number of shares in issue of 7,763m (2011: 7,750m). A reconciliation of reported EPS to adjusted EPS is provided in Note 9.

At 31 March 2012 there were around 120m outstanding options over BT Group plc shares granted under all-employee share option plans which are expected to become exercisable in 2013. In addition around 48m shares will be allocated in 2013 under the 2009 executive share plans.

Free cash flow
Adjusted free cash flow of £2,522m (2011: £2,223m) was well above our target for the year. The growth in cash flow was principally driven by the increase in EBITDA, lower interest payments, lower capital expenditure and lower regular pension contributions which were partly offset by higher tax payments. Excluding the £215m cash tax benefit in relation to pension deficit payments, free cash flow on a normalised basis was £2,307m (2011: £2,076m). The cash tax benefit of pension deficit payments is expected to be around £560m in 2013.

The cash cost of specific items was £204m (2011: £212m) comprising BT Global Services restructuring costs of £120m (2011: £165m), property rationalisation costs of £68m (2011: £47m) and a payment of £16m relating to a regulatory decision in a prior year. Reported free cash flow was £2,318m (2011: £2,011m). We expect the cash cost of the BT Global Services restructuring and property rationalisation programmes to be around £100m in 2013. There are ongoing regulatory disputes and appeals in relation to prior periods. If any of these result in a significant cash payment or receipt, in accordance with our accounting policy, they would be treated as a specific item.

A reconciliation of cash generated from operations to free cash flow is provided in Note 5.

Net debt and liquidity
Net debt was £9,082m at 31 March 2012, an increase of £266m in the year, principally reflecting the £2.0bn pension deficit payment made in March 2012. Net debt is reconciled in Note 6. At 31 March 2012 the group had cash and current investment balances of £844m and available facilities of £1.5bn. Out of total gross debt of £9.9bn at 31 March 2012, £1.7bn of term debt is repayable during the 2013 financial year.

Pensions
The 2011 triennial funding valuation of the BT Pension Scheme (BTPS) has now been finalised, agreed with the Trustee and certified by the Scheme Actuary. The final funding deficit at 30 June 2011 was £3.9bn compared with the provisional value of £4.1bn announced in March. As a result, following the £2.0bn lump sum deficit payment made in March 2012, the remaining recovery plan payments are £325m in March 2013 and 2014 followed by seven annual deficit payments of £295m (compared with £325m under the provisional agreement) through to March 2021. To provide greater certainty we also agreed a schedule of future potential payments depending on the outcome of the 2014 and 2017 funding valuations. Under the final agreement the maximum future potential payments have been increased to offset the reduction in the annual deficit payments.

The valuation documentation will now be submitted to the Pensions Regulator. The final Court decision on the Crown Guarantee case, after any appeals, will give greater clarity on the extent to which the BTPS liabilities are covered by the Crown Guarantee. This will inform the Pensions Regulator’s next steps with regards to the valuation of the Scheme.

The IAS 19 accounting position and key assumptions for the liability valuation are:

	31 March 2012 **£bn**	31 March 2011 £bn
IAS 19 liabilities - BTPS	**(40.6)**	(38.7)
Assets - BTPS	**38.3**	37.0
Other schemes	**(0.1)**	(0.1)
IAS 19 deficit, gross of tax	**(2.4)**	(1.8)
IAS 19 deficit, net of tax	**(1.9)**	(1.4)
Discount rate (nominal)	4.95%	5.50%
Discount rate (real)	1.84%	2.03%
RPI inflation	3.05%	3.40%
CPI inflation	0.75% below RPI for three years and 1.20% below RPI thereafter	1.50% below RPI for one year and 1.00% below RPI thereafter

The IAS 19 net pension position at 31 March 2012 was a deficit of £1.9bn net of tax (£2.4bn gross of tax) compared with a deficit of £1.4bn at 31 March 2011 (£1.8bn gross of tax). The higher deficit reflects an increase in liabilities which have more than offset the higher assets. Liabilities have risen primarily as a result of a lower discount rate, driven by low real corporate bond yields partly reflecting the impact of quantitative easing, and actual inflation experience being higher than the long-term assumptions. In line with developing best practice and reflecting a more sophisticated methodology, the discount rate at 31 March 2012 is based on a market-based AA corporate bond yield curve that matches the duration of the BTPS liabilities. This improved approach will be adopted consistently going forward. At 31 March 2011 the discount rate was based on a published index yield for a basket of corporate bonds and had this approach continued to be applied at 31 March 2012 the discount rate would have been around 30 basis points lower and the net pension deficit around £1.4bn higher. However, partly offsetting this, we have amended longevity assumptions which have increased the net pension deficit by around £0.2bn compared with the 31 December 2011 assumptions. The increase in assets includes the £2.0bn lump sum deficit payment made in March 2012.

We expect the pension operating charge for the BTPS in the income statement to be around £225m in 2013, around £30m lower. We also expect regular cash contributions into the BTPS to be around £225m in 2013, around £55m higher than 2012. The net pension interest within specific items is expected to be a credit of around £30m, a decrease of around £165m mainly due to lower expected returns on assets more than offsetting the higher asset values.

Dividends
The Board is proposing a final dividend of 5.7p, up 14%, giving a full year dividend of 8.3p, up 12%. This compares with an increase of 7% in 2011. Subject to shareholder approval, this will be paid on 3 September 2012 to shareholders on the register at 10 August 2012. The ex-dividend date is 8 August 2012. The final dividend, amounting to approximately £453m (2011: £388m) will be recognised as an appropriation of retained earnings in the quarter to 30 September 2012.

Regulation
There were a number of regulatory rulings issued in 2012. The new charge controls recently set on WLR, LLU and ISDN30 products are expected to have a negative impact of around £100m–£200m on group revenue in 2013 and a similar year on year impact in 2014. The outcome of Ofcom's forthcoming Business Connectivity Market Review, relating to the markets for Ethernet and wholesale leased lines, may also further impact our future revenue.

Outlook
Our objective remains to drive profitable revenue growth. While economic and regulatory headwinds will make revenue growth in 2013 more challenging than originally envisaged, we expect underlying revenue excluding transit to show an improving trend in 2013 and 2014. We expect a decline of around £200m–£300m in transit revenue in 2013.

We expect to make further progress in transforming our cost base which will drive growth in adjusted EBITDA in 2013 and 2014.

As the tax credit in relation to the £2.0bn lump sum pension deficit payment will distort our cash flow in 2013, we are now giving our free cash flow outlook excluding the tax benefit of pension deficit payments. On this normalised basis, free cash flow amounted to £2,307m in 2012 and is expected to be broadly level in 2013 and above £2.4bn in 2014. We intend to continue our policy of reducing net debt and are targeting a BBB+ credit rating over the medium term.

We expect BT Global Services to deliver solid EBITDA growth in 2013 as we intensify our efforts to reduce its cost base. Its operating cash flow is expected to be lower in 2013 due to phasing of working capital before returning to growth in 2014.

As a result of our confidence in our ability to grow free cash flow, we intend to increase the dividend per share by 10%–15% per year for the next three years. We also intend to spend around £300m on a share buyback programme in the current financial year which will counteract the dilutive effect of all-employee share option plans maturing this year and add to shareholder returns.

Principal risks and uncertainties
The group’s principal risks and uncertainties, which will be included in the BT Group plc Annual Report & Form 20-F 2012, expected to be published on 24 May 2012, are disclosed in Note 10.

RESULTS FOR THE FOURTH QUARTER TO 31 MARCH 2012

GROUP RESULTS

Operating results overview
Underlying revenue excluding transit decreased by 2.0%. Adjusted revenue was 4% lower at £4,875m with transit revenue down by £47m mainly due to mobile termination rate reductions, and disposals reducing revenue by £27m. Foreign exchange movements had no significant impact on group revenue or profits in the quarter.

Total operating costs before depreciation and amortisation and specific items decreased by 7% to £3,363m. Underlying operating costs were down 6%.

Net labour costs decreased by 1% to £1,179m after adjusting for certain labour related costs of £20m classified as other costs in the prior year. Payments to telecommunications operators were down 15%, reflecting lower mobile termination rates and reduced transit and wholesale call volumes. We saw further reductions across all our other cost categories due to further efficiency improvements.

Adjusted EBITDA increased by 4% to £1,609m reflecting the continued delivery of cost reductions.

Depreciation and amortisation decreased by 2% to £746m.

Capital expenditure was down 11% to £695m reflecting a more even phasing of capital expenditure this year.

Net finance expense
Net finance expense was £173m, a decrease of £13m, primarily due to lower average net debt and the repayment of higher coupon debt in the second half of 2011.

Profit before tax
Adjusted profit before tax was £690m, up 13%, reflecting the higher EBITDA and lower finance expense. Reported profit before tax (which includes specific items) was £724m, up 46%.

Tax
The effective tax rate on the profit before specific items for the quarter was 24.1% (Q4 2011: 21.6%).

Specific items
Specific items in the quarter resulted in a net credit after tax of £107m (Q4 2011: £5m net charge). Specific operating costs include BT Global Services restructuring charges of £14m (Q4 2011: £84m) principally comprising network, people and property costs. Net interest income on pensions was £48m (Q4 2011: £20m expense). The tax charge in respect of the above specific items was £9m (Q4 2011: £19m credit). A specific tax credit of £82m (Q4 2011: £96m) has been recognised for the re-measurement of deferred tax balances.

Earnings per share
Adjusted EPS was 6.8p, up 10%, principally reflecting the higher EBITDA and lower finance expense. Reported EPS was 8.1p, up 33%. These are based on a weighted average number of shares in issue of 7,771m (2011: 7,754m).

Free cash flow
Adjusted free cash flow increased by £290m to £909m principally reflecting the higher EBITDA, lower capital expenditure payments and improved working capital. Reported free cash flow was an inflow of £856m (Q4 2011: £546m). There was a net cash outflow of £53m relating to specific items (Q4 2011: £73m) comprising property rationalisation costs of £19m (Q4 2011: £16m), BT Global Services restructuring charges of £18m (Q4 2011: £57m) and a payment of £16m relating to a regulatory decision in a prior year.

OPERATING REVIEW

BT Global Services

	Fourth quarter to 31 March				Year to 31 March			
	2012	2011[1]	Change		**2012**	2011[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,996**	2,078	(82)	(4)	**7,809**	8,059	(250)	(3)
- underlying excluding transit				(2)				(1)
Net operating costs[2]	**1,810**	1,894	(84)	(4)	**7,182**	7,466	(284)	(4)
EBITDA	**186**	184	2	1	**627**	593	34	6
Depreciation & amortisation	**178**	195	(17)	(9)	**712**	734	(22)	(3)
Operating profit (loss)	**8**	(11)	19	n/m	**(85)**	(141)	56	40
Capital expenditure	**149**	143	6	4	**560**	498	62	12
Operating cash flow	**164**	70	94	134	**183**	119	64	54

[1] Restated for the impact of customer account moves, see Note 1 to the condensed consolidated financial statements
[2] Net of other operating income
n/m = not meaningful

Revenue
Underlying revenue excluding transit decreased by 2% in the quarter partly reflecting the challenging environment in certain markets. For the year, underlying revenue excluding transit decreased by 1%, compared with a 4% decline in 2011. Revenue was down 4% in the quarter, including broadly flat transit revenue of £121m, a £27m impact from disposals, and an £11m negative impact from foreign exchange movements. Revenue was down 3% for the year including a £168m decline in transit revenue, a £55m impact from disposals, and a £21m favourable impact from foreign exchange movements.

Total order intake was £2.0bn for the quarter, up 8%, and £6.7bn for the year, down 8%, with the reduction being more than accounted for by lower contract renewals. In the quarter we signed contracts with leading organisations around the world including: Anglo American, covering 15 countries across Africa, Latin America, and Asia; NATO, for services to more than 70 locations; and the Spanish steel company Celsa Group. In the UK we signed a contract with NATS (National Air Traffic Services) to support core air traffic control operations, and with the South Essex Partnership NHS Trust to provide a 500 site N3 Community of Interest network, making this the largest local health network in the UK.

In February we announced a series of initiatives aimed at doubling our business across Turkey, the Middle East and Africa. These initiatives build on similar programmes previously announced in Asia Pacific and Latin America. Across these three regions revenue increased by 16% and order intake increased by over 60% in the year. We expect to increase our revenue by around £500m in these regions over the medium term.

Operating results
Net operating costs reduced by 4% in the quarter and the year. Excluding transit costs, disposals and foreign exchange movements net operating costs declined by 3% in the quarter and 1% in the year. Included in net operating costs were leaver costs of £6m in the quarter and £19m in the year.

EBITDA was up 1% in the quarter and 6% in the year. Excluding disposals and foreign exchange movements EBITDA increased 4% in the quarter and 7% in the year reflecting the impact of cost saving initiatives and improved operational performance.

Depreciation and amortisation reduced by 9% in the quarter and 3% in the year as a result of lower capital expenditure over the prior two financial years. This contributed to an £8m operating profit in the quarter.

Capital expenditure was up 4% in the quarter. Capital expenditure for the year increased by 12% due to customer contract commitments, additional expenditure to support the delivery of new contracts in EMEA and Latin America, as well as continued network investment.

Operating cash flow was an inflow of £164m in the quarter and £183m for the year. This was slightly below our target of around £200m for the year.

BT Retail

	Fourth quarter to 31 March				Year to 31 March			
	2012	2011[1]	Change		**2012**	2011[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,861**	1,916	(55)	(3)	**7,393**	7,700	(307)	(4)
Net operating costs[2]	**1,375**	1,440	(65)	(5)	**5,563**	5,916	(353)	(6)
EBITDA	**486**	476	10	2	**1,830**	1,784	46	3
Depreciation & amortisation	**105**	111	(6)	(5)	**410**	443	(33)	(7)
Operating profit	**381**	365	16	4	**1,420**	1,341	79	6
Capital expenditure	**123**	135	(12)	(9)	**434**	434	0	0
Operating cash flow	**440**	432	8	2	**1,362**	1,382	(20)	(1)

[1] Restated for the impact of customer account moves, see Note 1 to the condensed consolidated financial statements
[2] Net of other operating income

Revenue
Revenue decreased by 3% in the quarter and 4% in the year.

Consumer revenue decreased by 2% in the quarter. This is the best quarterly revenue performance for two years driven by growth in our broadband base, particularly BT Infinity, and in BT Vision, which contributed to an increase in consumer ARPU from £337 to £343 in the quarter. Consumer revenue decreased by 5% in the year.

We added 136,000 retail broadband customers in the quarter, representing 44% of the DSL, LLU and fibre broadband market net additions, contributing to a full year share of net additions of 54%. Net additions for BT Infinity, our super-fast broadband service, were 131,000 in the quarter, and our customer base currently stands at over 550,000. BT Vision added 28,000 customers in the quarter, bringing the customer base to over 700,000, up 23% on last year. Additional content was added in the quarter as a result of deals with Miramax and UKTV.

Active consumer line losses were higher in the fourth quarter compared with the prior year but declined by 30% for the year as a whole.

Business revenue decreased by 6% in the quarter and 5% in the year. Revenue continued to be impacted by lower IT hardware sales reflecting market conditions and our decision in the second quarter to move away from low-margin IT hardware trade sales. Business line losses were at the lowest level for more than four years.

Enterprises revenue increased by 2% in the quarter and 1% in the year, excluding the impact of foreign exchange movements. The increase was largely due to the performance of BT Conferencing which saw an almost 20% rise in conferencing minutes in the quarter which offset lower revenue in BT Directories.

BT Ireland revenue increased by 4% in the quarter, excluding the impact of foreign exchange movements, reflecting large government and corporate contracts in both Northern Ireland and the Republic of Ireland and the impact of fibre take-up. A number of significant contracts were secured including Belfast Health and Social Care Trust and FBD Insurance. Revenue was broadly flat in the year, excluding the impact of foreign exchange movements. BT Ireland's fibre roll-out in Northern Ireland has now reached 89% coverage with over 750,000 premises passed, making it one of the most connected regions in Europe.

Operating results
In the quarter net operating costs decreased by 5% primarily as a result of our cost transformation initiatives. EBITDA increased by 2% and with depreciation and amortisation decreasing by 5%, operating profit was up by 4%.

Capital expenditure decreased by 9% principally as a result of the phasing of expenditure compared with the prior year. Operating cash flow increased by 2%.

BT Wholesale

	Fourth quarter to 31 March				Year to 31 March			
	2012	2011[1]	Change		**2012**	2011[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**958**	1,024	(66)	(6)	**3,923**	4,201	(278)	(7)
- underlying excluding transit				(2)				(2)
Net operating costs[2]	**665**	703	(38)	(5)	**2,715**	2,885	(170)	(6)
EBITDA	**293**	321	(28)	(9)	**1,208**	1,316	(108)	(8)
Depreciation & amortisation	**154**	156	(2)	(1)	**604**	619	(15)	(2)
Operating profit	**139**	165	(26)	(16)	**604**	697	(93)	(13)
Capital expenditure	**91**	92	(1)	(1)	**336**	329	7	2
Operating cash flow	**314**	331	(17)	(5)	**800**	911	(111)	(12)

[1] Restated for the impact of customer account moves, see Note 1 to the condensed consolidated financial statements
[2] Net of other operating income

Revenue
Underlying revenue excluding transit decreased by 2% in the quarter and the year. A retrospective charge of £13m was recognised in the fourth quarter reflecting a recent Ofcom determination. Excluding this charge, underlying revenue excluding transit declined by 1% both in the quarter and the year, primarily due to the ongoing migration of broadband lines to LLU. Revenue decreased by 6% in the quarter and 7% in the year mainly due to a decline in transit revenue of £49m in the quarter and £224m in the year, driven by mobile termination rate reductions of £35m and £213m, respectively. Managed network services represented 27% of external revenue in the year, up from 24% last year.

Total order intake in the quarter was around £220m giving a total of around £750m for the year.

We now have more than 60 communications providers (CPs) taking our WBC fibre broadband service. Our Mobile Ethernet Access Service is now available at more than 13,000 mobile base station sites, an increase of around 1,000 in the quarter, reinforcing our market-leading position. IP Exchange, which simplifies global VoIP interconnect, continues to grow rapidly with voice minutes increasing by around 80% in the quarter.

Operating results
In the quarter net operating costs decreased by 5%, but increased by 3% excluding transit costs. Reductions in total labour costs and discretionary expenditure were offset by the impact of changes in the product mix and network migration costs. EBITDA decreased by 9%, or 5% excluding the retrospective regulatory charge. Depreciation and amortisation reduced by 1% and operating profit declined by 16%, or 8% excluding the retrospective regulatory charge.

Capital expenditure decreased by 1%. Operating cash flow decreased by 5% as the decline in EBITDA was partly offset by an improvement in working capital.

Openreach

	Fourth quarter to 31 March				Year to 31 March			
	2012	2011[1]	Change		**2012**	2011[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,301**	1,255	46	4	**5,136**	4,930	206	4
Net operating costs[2]	**698**	716	(18)	(3)	**2,837**	2,798	39	1
EBITDA	**603**	539	64	12	**2,299**	2,132	167	8
Depreciation & amortisation	**239**	227	12	5	**939**	877	62	7
Operating profit	**364**	312	52	17	**1,360**	1,255	105	8
Capital expenditure	**279**	294	(15)	(5)	**1,075**	1,087	(12)	(1)
Operating cash flow	**364**	282	82	29	**1,195**	1,078	117	11

[1]Restated for the impact of customer account moves, see Note 1 to the condensed consolidated financial statements
[2]Net of other operating income

Revenue
Revenue increased by 4% in the quarter and the year, reflecting growth in Ethernet, LLU and fibre revenue.

In the quarter our overall copper line base increased by 74,000, our sixth consecutive quarter of growth. This gives an increase of 136,000 for the year, the largest annual increase since the formation of Openreach, compared with a flat position in the prior year and a significant decline in the year before that.

We have now passed 10m homes and businesses with our fibre broadband roll-out and in April we doubled the downstream speeds provided by fibre-to-the-cabinet broadband to up to 80Mbps. Following our success in Cornwall we have been appointed to deliver the roll-out of super-fast broadband for the Broadband Delivery UK project in Lancashire. We are in the early stages of deploying our fibre-to-the-premises service offering speeds of 110Mbps and are on track to launch our 330Mbps product shortly. This quarter we also completed the fibre infrastructure work underpinning the communications network at the Olympic Park in Stratford.

Operating results
In the quarter net operating costs reduced by 3% as a result of efficiencies and lower labour costs. EBITDA increased by 12% as a result of our increased revenue and reduced operating costs. Depreciation and amortisation increased by 5% reflecting the investment in fibre broadband and Ethernet. Operating profit increased by 17%.

The accelerated investment in our fibre roll-out programme was offset by lower spend on DSL, resulting in capital expenditure reducing by 5%. Operating cash flow was up 29% due to the higher EBITDA and lower capital expenditure.

FINANCIAL STATEMENTS

Group income statement
For the fourth quarter to 31 March 2012

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	4,875	-	**4,875**
Other operating income		97	-	**97**
Operating costs	3	(4,109)	(14)	**(4,123)**
Operating profit		863	(14)	**849**
Finance expense		(177)	(524)	**(701)**
Finance income		4	572	**576**
Net finance expense		(173)	48	**(125)**
Share of post tax profits of associates and joint ventures		-	-	**-**
Profit before tax		690	34	**724**
Tax		(166)	73	**(93)**
Profit for the period		524	107	**631**
Attributable to:				
Equity shareholders		525	107	**632**
Non-controlling interests		(1)	-	**(1)**
Earnings per share	9			
- basic		6.8p		**8.1p**
- diluted		6.4p		**7.7p**

Group income statement
For the fourth quarter to 31 March 2011

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	5,055	-	**5,055**
Other operating income		101	-	**101**
Operating costs	3	(4,367)	(102)	**(4,469)**
Operating profit		789	(102)	**687**
Finance expense		(188)	(581)	**(769)**
Finance income		2	561	**563**
Net finance expense		(186)	(20)	**(206)**
Share of post tax profits of associates and joint ventures		7	-	**7**
Profit on disposal of interest in associate		-	7	**7**
Profit before tax		610	(115)	**495**
Tax		(132)	110	**(22)**
Profit for the period		478	(5)	**473**
Attributable to:				
Equity shareholders		477	(5)	**472**
Non-controlling interests		1	-	**1**
Earnings per share	9			
- basic		6.2p		**6.1p**
- diluted		5.8p		**5.8p**

Group income statement
For the year to 31 March 2012

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	19,307	(410)	**18,897**
Other operating income		387	(19)	**368**
Operating costs	3	(16,602)	256	**(16,346)**
Operating profit		3,092	(173)	**2,919**
Finance expense		(692)	(2,092)	**(2,784)**
Finance income		11	2,289	**2,300**
Net finance expense		(681)	197	**(484)**
Share of post tax profits of associates and joint ventures		10	-	**10**
Profit before tax		2,421	24	**2,445**
Tax		(584)	142	**(442)**
Profit for the year		1,837	166	**2,003**
Attributable to:				
Equity shareholders		1,836	166	**2,002**
Non-controlling interests		1	-	**1**
Earnings per share	9			
- basic		23.7p		**25.8p**
- diluted		22.4p		**24.4p**

Group income statement
For the year to 31 March 2011

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	20,076	-	**20,076**
Other operating income		373	-	**373**
Operating costs	3	(17,542)	(329)	**(17,871)**
Operating profit		2,907	(329)	**2,578**
Finance expense		(880)	(2,323)	**(3,203)**
Finance income		35	2,244	**2,279**
Net finance expense		(845)	(79)	**(924)**
Share of post tax profits of associates and joint ventures		21	-	**21**
Profit on disposal of interest in associate		-	42	**42**
Profit before tax		2,083	(366)	**1,717**
Tax		(452)	239	**(213)**
Profit for the year		1,631	(127)	**1,504**
Attributable to:				
Equity shareholders		1,629	(127)	**1,502**
Non-controlling interests		2	-	**2**
Earnings per share	9			
- basic		21.0p		**19.4p**
- diluted		20.1p		**18.5p**

Group statement of comprehensive income
For the fourth quarter and year to 31 March

	Fourth quarter to 31 March		Year to 31 March	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Profit for the period	**631**	473	**2,003**	1,504
Other comprehensive income (loss)				
Actuarial gains (losses) on defined benefit pension schemes	**901**	1,375	**(2,744)**	5,109
Exchange losses on translation of foreign operations	**(58)**	(33)	**(105)**	(140)
Fair value movements on cash flow hedges				
- fair value (losses) gains	**(118)**	61	**(56)**	(347)
- recycled and reported in net profit	**88**	(85)	**179**	333
Movement in assets available for sale reserve	**4**	4	**(3)**	15
Tax on components of other comprehensive income	**(306)**	(326)	**577**	(1,521)
Other comprehensive income (loss) for the period, net of tax	**511**	996	**(2,152)**	3,449
Total comprehensive income (loss) for the period	**1,142**	1,469	**(149)**	4,953
Attributable to:				
Equity shareholders	**1,143**	1,469	**(151)**	4,951
Non-controlling interests	**(1)**	-	**2**	2
	1,142	1,469	**(149)**	4,953

Group statement of changes in equity
For the year to 31 March 2012

	Share capital	Reserves (deficit)	Non-controlling interests	Total equity
	£m	£m	£m	£m
At 1 April 2010	408	(3,058)	24	(2,626)
Total comprehensive income for the year	-	4,951	2	4,953
Share-based payment	-	68	-	68
Net movement on treasury shares	-	8	-	8
Tax on items taken directly to equity	-	91	-	91
Dividends on ordinary shares	-	(543)	-	(543)
At 31 March 2011	408	1,517	26	1,951
Total comprehensive loss for the year	-	(151)	2	(149)
Share-based payment	-	75	-	75
Net movement on treasury shares	-	20	-	20
Tax on items taken directly to equity	-	17	-	17
Dividends on ordinary shares	-	(589)	-	(589)
Transactions with equity holders	-	-	(17)	(17)
At 31 March 2012	**408**	**889**	**11**	**1,308**

Group cash flow statement

For the fourth quarter and year to 31 March

	Fourth quarter to 31 March		Year to 31 March	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Profit before tax	**724**	495	**2,445**	1,717
Depreciation and amortisation	**746**	762	**2,972**	2,979
Net finance expense	**125**	206	**484**	924
Loss on disposal of subsidiary	**-**	-	**19**	-
Associates and joint ventures	**-**	(7)	**(10)**	(21)
Profit on disposal of associate	**-**	(7)	**-**	(42)
Share-based payments	**17**	18	**75**	68
Decrease (increase) in working capital	**349**	217	**(25)**	13
Provisions, pensions and other non-cash movements[1]	**(2,108)**	(577)	**(2,002)**	(863)
Cash (outflow) inflow from operations	**(147)**	1,107	**3,958**	4,775
Tax paid	**(172)**	(100)	**(400)**	(209)
Net cash (outflow) inflow from operating activities	**(319)**	1,007	**3,558**	4,566
Cash flow from investing activities				
Interest received	**5**	2	**8**	29
Dividends received from associates and joint ventures	**-**	2	**4**	7
Proceeds on disposal of property, plant and equipment	**5**	5	**18**	15
Acquisition of subsidiaries, net of cash acquired	**-**	-	**(5)**	(8)
Sale of subsidiaries, net of bank overdrafts	**-**	-	**13**	-
Disposal of associates and joint ventures	**-**	5	**7**	72
Purchases of property, plant and equipment and computer software	**(690)**	(753)	**(2,578)**	(2,645)
Net (purchase) sale of non-current asset investments	-	(1)	**1**	(18)
Purchase of current financial assets	**(2,518)**	(1,755)	**(8,845)**	(8,902)
Sale of current financial assets	**3,345**	2,670	**8,329**	9,267
Net cash received (used) in investing activities	**147**	175	**(3,048)**	(2,183)
Cash flow from financing activities				
Interest paid	**(145)**	(221)	**(693)**	(973)
Equity dividends paid	**(202)**	(186)	**(590)**	(543)
Repayment of borrowings	**(4)**	(761)	**(26)**	(2,509)
Repayment of finance lease liabilities	**-**	-	**(2)**	(11)
Receipt of bank loans and bonds	**-**	-	**-**	340
Cash flows from derivatives related to net debt	**(28)**	(3)	**258**	120
Net proceeds on commercial paper	**591**	53	**522**	69
Proceeds on issue of treasury shares	**10**	6	**21**	8
Net cash received (used) in financing activities	**222**	(1,112)	**(510)**	(3,499)
Effect of exchange rate movements	**(2)**	(1)	**(2)**	(3)
Net increase (decrease) in cash and cash equivalents	**48**	69	**(2)**	(1,119)
Cash and cash equivalents, net of bank overdrafts, at beginning of period	**275**	256	**325**	1,444
Cash and cash equivalents, net of bank overdrafts, at end of period	**323**	325	**323**	325

[1] Includes pension deficit payments of £2,000m in Q4 2012 and FY 2012 (Q4 2011: £505m; FY 2011: £1,030m)

Group balance sheet

	31 March 2012 £m	31 March 2011 £m
Non-current assets		
Intangible assets	**3,127**	3,389
Property, plant and equipment	**14,388**	14,623
Derivative financial instruments	**886**	625
Investments	**68**	61
Associates and joint ventures	**153**	164
Trade and other receivables	**169**	286
Deferred tax assets	**626**	461
	19,417	19,609
Current assets		
Inventories	**104**	121
Trade and other receivables	**3,341**	3,332
Current tax receivable	**139**	-
Derivative financial instruments	**137**	108
Investments	**513**	19
Cash and cash equivalents	**331**	351
	4,565	3,931
Current liabilities		
Loans and other borrowings	**2,887**	485
Derivative financial instruments	**89**	62
Trade and other payables	**5,996**	6,114
Current tax liabilities	**66**	221
Provisions	**251**	149
	9,289	7,031
Total assets less current liabilities	**14,693**	16,509
Non-current liabilities		
Loans and other borrowings	**7,599**	9,371
Derivative financial instruments	**757**	507
Retirement benefit obligations	**2,448**	1,830
Other payables	**875**	831
Deferred tax liabilities	**1,100**	1,212
Provisions	**606**	807
	13,385	14,558
Equity		
Ordinary shares	**408**	408
Reserves	**889**	1,517
Total parent shareholders' equity	**1,297**	1,925
Non-controlling interests	**11**	26
Total equity	**1,308**	1,951
	14,693	16,509

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

The final results for the year to 31 March 2012 have been extracted from the audited consolidated financial statements which have not yet been delivered to the Registrar of Companies but are expected to be published on 24 May 2012. The financial statements for the fourth quarter to 31 March 2012 are unaudited.

The financial information set out above does not constitute the company's statutory accounts for the years to 31 March 2012 or 2011 but is derived from those accounts. Statutory accounts for the year to 31 March 2011 were approved by the Board of Directors on 11 May 2011, published on 27 May 2011 and delivered to the Registrar of Companies, and those for 2012 are expected to be published on 24 May 2012. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for the year to 31 March 2011 and 31 March 2012.

Customer account moves

The 2011 line of business comparatives have been restated as a result of customer account moves between BT Retail, BT Wholesale, BT Global Services and Openreach effective from 1 April 2011, which have no impact on the total group results.

2 Operating results – by line of business[1]

	External revenue £m	Internal revenue £m	Group revenue £m	Group EBITDA £m	Group operating profit (loss) £m
Fourth quarter to 31 March 2012					
BT Global Services	**1,996**	**-**	**1,996**	**186**	**8**
BT Retail	**1,723**	**138**	**1,861**	**486**	**381**
BT Wholesale	**713**	**245**	**958**	**293**	**139**
Openreach	**426**	**875**	**1,301**	**603**	**364**
Other and intra-group items[2]	**17**	**(1,258)**	**(1,241)**	**41**	**(29)**
Total	**4,875**	**-**	**4,875**	**1,609**	**863**
Fourth quarter to 31 March 2011[3]					
BT Global Services	2,078	-	2,078	184	(11)
BT Retail	1,797	119	1,916	476	365
BT Wholesale	780	244	1,024	321	165
Openreach	390	865	1,255	539	312
Other and intra-group items[2]	10	(1,228)	(1,218)	31	(42)
Total	5,055	-	5,055	1,551	789
Year to 31 March 2012					
BT Global Services	**7,809**	**-**	**7,809**	**627**	**(85)**
BT Retail	**6,882**	**511**	**7,393**	**1,830**	**1,420**
BT Wholesale	**2,943**	**980**	**3,923**	**1,208**	**604**
Openreach	**1,623**	**3,513**	**5,136**	**2,299**	**1,360**
Other and intra-group items[2]	**50**	**(5,004)**	**(4,954)**	**100**	**(207)**
Total	**19,307**	**-**	**19,307**	**6,064**	**3,092**
Year to 31 March 2011[3]					
BT Global Services	8,059	-	8,059	593	(141)
BT Retail	7,253	447	7,700	1,784	1,341
BT Wholesale	3,222	979	4,201	1,316	697
Openreach	1,504	3,426	4,930	2,132	1,255
Other and intra-group items[2]	38	(4,852)	(4,814)	61	(245)
Total	20,076	-	20,076	5,886	2,907

[1] Before specific items
[2] Elimination of intra-group revenue, which is included in the total revenue of the originating business
[3] Restated for the impact of customer account moves – see Note 1 for details

3 Operating costs

	Fourth quarter to 31 March		Year to 31 March	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Direct labour costs[1]	**1,197**	1,185	**4,788**	4,830
Indirect labour costs	**210**	241	**914**	958
Leaver costs	**29**	21	**97**	57
Total labour costs	**1,436**	1,447	**5,799**	5,845
Capitalised labour	**(257)**	(276)	**(987)**	(1,047)
Net labour costs	**1,179**	1,171	**4,812**	4,798
Payments to telecommunications operators	**742**	872	**3,153**	3,740
Property and energy costs	**253**	290	**1,066**	1,149
Network operating and IT costs	**153**	156	**630**	706
Other costs[1]	**1,036**	1,116	**3,969**	4,170
Operating costs before depreciation and specific items	**3,363**	3,605	**13,630**	14,563
Depreciation and amortisation	**746**	762	**2,972**	2,979
Total operating costs before specific items	**4,109**	4,367	**16,602**	17,542
Specific items (Note 4)	**14**	102	**(256)**	329
Total operating costs	**4,123**	4,469	**16,346**	17,871

[1]Certain labour related costs of £20m in Q4 2011 and £87m in FY 2011 were classified as other costs in the prior year

4 Specific items

The group separately identifies and discloses those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence (termed 'specific items'). This is consistent with the way that financial performance is measured by management and assists in providing a meaningful analysis of the trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies.

	Fourth quarter to 31 March		Year to 31 March	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Specific revenue				
German retrospective regulatory ruling	**-**	-	**410**	-
Specific other operating income				
Loss on disposal of subsidiary	**-**	-	**19**	-
Specific operating items				
BT Global Services restructuring charges	**14**	84	**64**	192
Property rationalisation charges	**-**	8	**90**	88
German retrospective regulatory ruling	**-**	-	**(410)**	-
Intangible asset impairment charges	**-**	10	**-**	49
EBITDA impact (Note 7)	**14**	102	**173**	329
Specific net finance expense				
Net interest (income) expense on pensions	**(48)**	20	**(197)**	79
Profit on disposal of interest in associate	**-**	(7)	**-**	(42)
Net specific items charge before tax	**(34)**	115	**(24)**	366
Tax charge (credit) on specific items before tax	**9**	(19)	**22**	(72)
Tax credit on re-measurement of deferred tax	**(82)**	(96)	**(164)**	(172)
Tax charge in respect of settlement of prior years	**-**	5	**-**	5
Net specific items (credit) charge after tax	**(107)**	5	**(166)**	127

5 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.

	Fourth quarter to 31 March		Year to 31 March	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Cash generated from operations	**(147)**	1,107	**3,958**	4,775
Tax paid	**(172)**	(100)	**(400)**	(209)
Net cash (outflow) inflow from operating activities	**(319)**	1,007	**3,558**	4,566
Add back pension deficit payments	**2,000**	505	**2,000**	1,030
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	**(685)**	(748)	**(2,560)**	(2,630)
Dividends received from associates	**-**	2	**4**	7
Interest received	**5**	2	**8**	29
Net (purchase) sale of non-current financial assets	**-**	(1)	**1**	(18)
Included in cash flows from financing activities				
Interest paid	**(145)**	(221)	**(693)**	(973)
Free cash flow	**856**	546	**2,318**	2,011
Net cash outflow from specific items	**53**	73	**204**	212
Adjusted free cash flow	**909**	619	**2,522**	2,223
Cash tax benefit of pension deficit payments	**-**	(37)	**(215)**	(147)
Normalised free cash flow	**909**	582	**2,307**	2,076

6 Net debt

Net debt is not a measure defined under IFRS but is a key indicator used by management to assess operational performance.

	At 31 March	
	2012	2011
	£m	£m
Loans and other borrowings[1]	**10,486**	9,856
Cash and cash equivalents	**(331)**	(351)
Investments	**(513)**	(19)
	9,642	9,486
Adjustments:		
To re-translate currency denominated balances at swapped rates where hedged	**(228)**	(408)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	**(332)**	(262)
Net debt	**9,082**	8,816

[1] Includes overdrafts of £8m at 31 March 2012 (31 March 2011: £26m)

7 Reconciliation of earnings before interest, taxation, depreciation and amortisation

Earnings before interest, taxation, 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.

	Fourth quarter to 31 March		Year to 31 March	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Reported profit before tax	**724**	495	**2,445**	1,717
Share of post tax profits of associates and joint ventures	**-**	(7)	**(10)**	(21)
Profit on disposal of subsidiary and associate	**-**	(7)	**-**	(42)
Net finance expense	**125**	206	**484**	924
Operating profit	**849**	687	**2,919**	2,578
Depreciation and amortisation	**746**	762	**2,972**	2,979
Reported EBITDA	**1,595**	1,449	**5,891**	5,557
Specific items (Note 4)	**14**	102	**173**	329
Adjusted EBITDA	**1,609**	1,551	**6,064**	5,886

8 Reconciliation of adjusted profit before tax

	Fourth quarter to 31 March		Year to 31 March	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Reported profit before tax	**724**	495	**2,445**	1,717
Specific items (Note 4)	**(34)**	115	**(24)**	366
Adjusted profit before tax	**690**	610	**2,421**	2,083

9 Reconciliation of adjusted earnings per share

	Fourth quarter to 31 March		Year to 31 March	
	2012	2011	**2012**	2011
	pence per share		pence per share	
Reported basic earnings per share	**8.1**	6.1	**25.8**	19.4
Per share impact of specific items	**(1.3)**	0.1	**(2.1)**	1.6
Adjusted earnings per share	**6.8**	6.2	**23.7**	21.0

10 Principal risks and uncertainties (extracted from the BT Group plc Annual Report & Form 20-F 2012)

Principal risks and uncertainties

In common with all businesses, we are affected by a number of risks and uncertainties which are influenced by both internal and external factors, some of which are not within our control. Many of our risks are similar to those of comparable companies in terms of scale and operation.

This section highlights principal risks and uncertainties affecting our business but it is not intended to be an extensive analysis of all risk and uncertainty affecting us. These risks have the potential to impact our business, revenues, profits, assets, liquidity and capital resources adversely. Our processes are designed to give reasonable, but cannot give absolute, assurance that the risks significant to us are identified and addressed. There may be risks which are unknown or which are presently judged not to be significant but later prove to be significant.

Uncertainty in global economic and credit market conditions remains a major challenge to businesses globally. This is particularly true in Europe, where there are concerns over government debt levels and possible currency re-denomination risks. In common with many other businesses we remain conscious of the adverse impact that unfavourable economic and credit conditions may have on our business. This economic uncertainty manifests itself in several of the risks we face, and we focus our efforts on the management of those principal risks.

The principal risks we reported last year have evolved in nature, as has our response to them and we explain these changes in our principal risks section below.

We also include comment on mitigation – that is, what we can do to reduce the likelihood or impact of the risk – that we apply to help us manage the risks. However, it is possible that not all mitigation will be successful.

The principal risks and uncertainties should be considered in conjunction with the cautionary statement regarding forward-looking statements.

Our principal risks

Security and resilience

Our reputation for secure and resilient services relies on the quality, integrity and reliability of our global information systems, networks and infrastructure. The scale of our business and global nature of our operations means we are required to manage significant volumes of personal and commercially sensitive information which are stored and transmitted to meet our own business purposes and those of our customers. All of this needs to be safeguarded from potential exposure, loss or corruption.

Increasing dependence on voice and data transmission in a variety of forms is accompanied by high expectations about service continuity. In addition, concerns about interception, corruption and theft of information lead to requirements for stringent security measures, in an environment where attacks are becoming more frequent and sophisticated. Certain of our customers require specific, highly sophisticated security provisioning which we are contractually obliged to meet if we are to continue to be able to differentiate our offerings from those of our competitors.

Changes over the last year

Reports of and attention paid to computer hacking incidents have increased concerns about the likelihood of a cyber attack. Enhanced laptop encryption and significant improvements in the protection and segregation of credit card data are some measures which we have taken to manage this risk. We continue to evolve our strategy and capabilities to seek to protect our business against the threat of attacks.

The increased threat we have faced in the UK from cable theft, together with actions we have taken in response, are set out in more detail in the BT Group plc Annual Report & Form 20-F 2012.

Impact

Failure or interruption of data transfer could have a significant adverse effect on our business. A breach of our security and/or resilience affecting our own operations or those of our customers could lead to an extended interruption to network services and even affect national infrastructure. Such failure may lead to a loss of customer confidence, termination of contracts, loss of revenue, and reduced cash resources through penalties and unplanned costs of restoration and improvement. Additional reputational damage and financial loss may arise from a breach involving a legal failing such as breaching data protection requirements.

Risk mitigation

We operate well established policies addressing the security and resilience requirements of our operations, our own systems and systems operated by us for our customers. Compliance with these policies is routinely monitored. We apply stringent application and data encryption measures, deploy increasingly sophisticated anomaly and intrusion detection systems and utilise distributed and virtual data centre designs which provide much greater inherent resilience. We have a corporate resilience strategy that combines formal business continuity plans with well tested, rapid and flexible responses. These are designed to deal with catastrophic incidents including for example, major terrorist action, industrial action, cyber attacks or natural disasters.

Given our important role in the forthcoming London 2012 Olympic and Paralympic Games, safeguards and deterrent measures have been increased, and incident responses rehearsed, to increase the likelihood that any potential incidents can be contained and dealt with as quickly as possible.

Major contracts

We have a number of complex and high-value contracts with certain customers. The revenue arising from, and the profitability of, these contracts are subject to a number of factors including: variation in cost and achievement of cost reductions anticipated in the contract pricing, both in terms of scale and time; delays in delivery or achieving agreed milestones owing to factors either within or outside of our control; changes in customers' requirements, budgets, strategies or businesses; the performance of our suppliers; and other factors. Any of these factors could make a contract less profitable or even loss making.

The degree of risk varies generally in proportion to the scope and life of the contract and is typically higher in the early transitional and transformational stages of the contract. Some customer contracts require investment in the early stages, which is expected to be recovered over the life of the contract. Major contracts often involve the implementation of new systems and communications networks, transformation of legacy networks and the development of new technologies. The recoverability of these upfront costs may be adversely impacted by delays or failure to meet milestones. Substantial performance risk exists in these contracts, and some or all elements of performance depend upon successful completion of the transition, development, transformation and deployment phases.

Changes over the last year

Global economic and credit market conditions, in Europe in particular, have put increased financial and operational pressures on our customers and have made the environment even more competitive. As we continue to expand into emerging markets, the landscape of our risks and opportunities naturally changes as we must deal with rapidly evolving geo-political risks and different trading environments and business practices. We are able to draw on our experience in managing these risks, and will continue to apply the control framework and mitigation that is in place for our major contracts.

Impact

Failure to manage and meet our commitments under these contracts, as well as changes in customers' requirements, budgets, strategies or businesses, may lead to a reduction in our expected future revenue, profitability and cash generation. We may lose revenue due to the merger or acquisition of customers, changes to customer strategy, business failure or contract termination. Failure to replace the revenue and earnings lost from such customers could lead to an overall reduction in revenue, profitability and cash flow.

Risk mitigation

We have in place business processes that support each stage of a major contract's life cycle: bid; in-life; renewal; and termination. Our programme of in-life reviews has continued over the past year. It is designed to validate financial and non-financial controls over delivery of the contract. It incorporates tiered levels of defined review according to the scale and complexity of the contract. Controls are applied and regularly monitored across our major contracts. All our major contracts are subject to regular management review and many are subject to independent review (both internal and external) as part of that governance.

We have started rolling out new and revised risk training material with the objective of improving identification, evaluation and management of risk on our major contracts. Our independent review programme continues to help us identify lessons learned and to promote best practice through the business.

Pensions

We have a significant funding obligation in relation to our defined benefit pension schemes. Declining investment returns, longer life expectancy and regulatory changes may result in the cost of funding BT's main defined benefit pension scheme, the BT pension Scheme (BTPS), becoming a significant burden on our financial resources.

Changes over the last year

The triennial funding valuation of the BTPS at 30 June 2011 and associated recovery plan was agreed with the BTPS Trustee and certified by the Scheme Actuary in May 2012. Under this prudent funding valuation basis the deficit was £3.9bn and a recovery plan was agreed in order to return the BTPS to a fully funded position on an actuarial funding basis by 31 March 2021.

The valuation documentation will now be submitted to the Pensions Regulator. The final Court decision in the Crown Guarantee case, after any appeals, will give greater clarity as to the extent to which the liabilities of the BTPS are covered by a Crown Guarantee. This will inform the Pension Regulator's next steps with regards to the valuation of the Scheme. Accordingly, as matters stand, it is uncertain as to when they will conclude their review.

Impact

An increase in the pension deficit and associated funding requirements would have a direct adverse impact on our future cash resources. Indirectly it may also have an adverse impact on our share price and credit rating. Any deterioration in the credit rating would increase our cost of borrowing and may limit the availability or flexibility of future funding thereby affecting our ability to invest, pay dividends or repay debt as it matures.

Risk mitigation
The investment performance and liability experience, as well as the associated risks and mitigation strategy, is regularly reviewed and monitored by both us and the BTPS Trustee. The BTPS has a well-diversified investment strategy, which reduces the risk of adverse movements in the value of individual asset classes and helps ensure that an efficient balance of risk and return is maintained.

The funding deficit was reduced by a lump sum payment of £2.0bn into the BTPS in March 2012, following a provisional agreement with the BTPS Trustee on the funding valuation at 30 June 2011. Completing the valuation in a timely manner has provided additional certainty for us and members of the BTPS on future payments to the BTPS.

Our financial strength and cash generation provides a level of protection that enables variations in the funding position of the BTPS to be managed without having a material impact on the ongoing performance of our business.

Growth in a competitive market
We operate in markets which are characterised by high levels of competition including: declining prices; technology substitution; market and service convergence; customer churn; declining rates of growth; emerging competitors, and regulatory intervention to promote competition. A significant proportion of our revenue and profit is generated in the UK telecoms markets which are experiencing limited revenue growth despite strong volume demands in many markets. Revenue from our calls and lines services to consumers and businesses has historically been in decline but new broadband and connectivity markets are showing continuing growing demand. Our ability to deliver profitable revenue growth in a responsible and sustainable manner depends on delivering on our strategic priorities.

Changes over the last year
The level of risk facing our business due to competition has increased with new competitors emerging and our customers in the UK and globally facing uncertainty in the economic outlook. Regulatory changes which now allow competitors to deploy access fibre using our duct and poles have also contributed to the increased level of risk. The competitive challenges across our different markets continue to evolve. In a number of our markets we remain disadvantaged by imbalances in the competitive playing field. Some of our competitors benefit from a combination of limited regulation applied to their core business and extensive sector specific regulation being applied to our UK fixed business. Competition remains strong in the UK consumer fixed communications retail and wholesale markets. In managed networked IT services for multinational companies, competition is increasingly centred on value added network IT services rather than network connectivity.

Impact
Failure to achieve profitable revenue growth from our strategic priorities may lead to a continued decline in revenue, erosion of our competitive position and might also lead to a reduction in profitability and cash flow in the future.

Risk mitigation
Against this competitive backdrop we remain focused on successfully defending our existing business and offering new services in converging markets. We continue to press for changes in regulation to level the playing field so that we can compete efficiently for the benefit of customers. We have a clearly defined strategy aimed at increasing shareholder value. The delivery of our strategic priorities will help improve our revenue trends. Our strategic priorities are underpinned by our view of the markets in which we operate. We have a well developed cost transformation programme in place which has achieved significant savings and helped maintain a competitive cost base.

We have taken action to make the management of this risk more integral to our business. These steps have built on our existing processes which are primarily focused on monitoring performance against business plan and allowing timely interventions where appropriate. Management incentives have been changed to ensure better alignment and growth in underlying revenue excluding transit now carries a 20% weighting as a performance measure in our incentive share awards.

Communications industry regulation
Some of our activities continue to be subjected to significant price and other regulatory controls which may affect our market share, competitive position, future profitability and cash. Many of our wholesale products in the UK are subject to significant regulatory controls. The controls regulate, among other things, the prices we can charge for many of our services and the extent to which we have to provide services to other CPs. In recent years the effect

of these controls has required us to reduce our prices, although in some cases, prices have been allowed to increase in real terms.

Regulatory decisions in all jurisdictions in which we operate can directly impact our financial position. In the UK, Ofcom has powers to directly amend the prices we set and therefore the revenues we earn in certain markets. These can extend to requiring us to make retrospective repayments to other CPs for past overcharging and imposing fines for non-compliance with the regulatory rules (including competition law). Outside the UK, regulation defines where and how we are able to compete through general licensing requirements and defining the wholesale charges we pay for access.

Regulation usually operates within a clear legislative framework that is stable in the medium to long-term. Risks of negative regulatory decisions arise from within those frameworks. For instance, in the UK, risks can arise from periodic market reviews which may introduce tighter regulatory constraints, for example, from new charge controls, or from CPs raising disputes or complaints about our current or historic pricing. Risks also arise as legal challenges are brought by others against Ofcom decisions. Outside the UK, regulators can conduct investigations into our licensing requirements and whether the services we offer are compliant.

Changes over the last year
Over the last year, we have seen regulatory activity in a number of areas. A number of these rulings have resulted in a negative impact either through retrospective price reductions or on our future pricing.

Impact
In recent years changes in price controls have required us to reduce our prices and in some instances to make payments in respect of retrospective price adjustments. Additional or more substantial regulatory price reductions could constrain our revenue performance.

We may be required to provide new services to wholesale customers on a non-discriminatory basis, increasing our costs and increasing retail competition. Disputes may result either in reduced revenue or increased costs going forward. We may also be required to make retrospective payments to CPs if it is ruled that we have overcharged them. Appeals may change Ofcom’s decisions, which had originally been concluded in our favour.

Risk mitigation
We continuously monitor and review potential regulatory changes and disputes, and maintain a dialogue with regulators and other key influencers on critical issues. We use external advisors to advise and support our positions and thoroughly assess the potential for a legal challenge to any regulatory decisions.

Compliance in a global environment
The global nature of our operations means that we have to comply with a wide range of local and international legislative requirements. Our legal compliance obligations include anti-trust and anti-corruption legislation, competition law, data privacy, trade sanctions, import and export controls, taxation and telecoms regulatory requirements.

Changes over the last year
Some of the countries where we operate have increased their enforcement of local laws and therefore the potential impact of failing to comply with local and international legislative requirements has increased significantly. The UK Bribery Act (which also has effect outside the UK) came into effect in July 2011, with penalties for non-compliant businesses through the introduction of a corporate offence of failing to have adequate procedures in place to prevent bribery.

Impact
Failure by our employees, suppliers or agents to comply with anti-bribery and corruption legislation (including the US Foreign Corrupt Practices Act and the UK Bribery Act), or any failure in our policies and procedures to monitor and prevent non-compliance, anywhere in the world, could result in substantial penalties, criminal prosecution and significant damage to our reputation.

More broadly, failure to comply with legal requirements can have a significant impact and lead to reputational and brand damage with investors, regulators and customers. This could in turn impact our future revenue streams, the extent of which would be dependent on the nature of the breach, the legislation concerned and any associated penalties.

Risk mitigation
We have in place a number of established controls to address risk in this area. These include a comprehensive ethics programme, *The Way We Work* (our statement of business practice), and anti-corruption and bribery policies. We also have policies covering gifts and hospitality, charitable donations and sponsorship, and agents.

We have a training programme for staff with a focus on roles such as procurement and sales.

We operate a governance structure with five regional governance committees focussing on the implementation of the programme. These regional committees cover the US, Asia Pacific, Latin America, EMEA, and the UK and Republic of Ireland.

A regular risk assessment is undertaken to ensure that the appropriate mitigation is in place and is regularly refreshed. We operate a confidential hotline where messages can be left in person, via voicemail or by anonymous email. We run regular checks on our business using Internal Audit teams as well as external providers. We review our business operations to ensure that our policies have been complied with.

Supply chain
We are dependent on our supply chain for the delivery of goods and services on time, to cost and to specification. Failure of any of our critical suppliers to meet agreed requirements could adversely impact our customer service, product launches, updates to business critical systems, revenue or cost reduction plans.

We are committed to ensuring that all dealings with suppliers, from selection and consultation to contracting and payment are conducted in accordance with our trading and ethical policies.

Our supply chain is global and we aim to harness the capability, diversity and innovation of our supply market to add value to our business and customers. Many suppliers are being impacted by the economic downturn and the challenges of globalisation. This is introducing further risk in our supply chain which includes, but is not limited to: increase in supplier insolvency; lack of supplier resilience following a natural disaster; lack of compliance with anti-corruption and bribery legislation; corporate social responsibility risks in our extended supply chain; and security risks relating to data protection.

Changes over the last year
Over the last year we have seen the impact of a number of natural disasters including the Japanese earthquake and floods in Thailand. Both, to some extent, have had an impact on the supply of components used in the manufacture of our products although the impact on us was minimised through robust supplier business continuity plans. The current global economic and credit market conditions, particularly in Europe, mean an increased risk of suppliers failing.

Impact
Our suppliers could be adversely affected by continuing uncertain economic conditions which in turn could impact their ability to meet their obligations to us or, in the extreme, cause them to fail. If we are unable to contract with an alternative supplier our customer commitments could also be compromised leading to contractual breach, loss of revenue, penalties or increased costs. A failure in our supply chain to meet legal obligations or ethical expectations could adversely impact our reputation or possibly lead to censure, legal action and financial loss.

Risk mitigation
We continue to mitigate risks in this area through a number of measures including: globally coordinated vendor management programmes; rigorous bid controls; supplier risk assessments including focus on our most critical suppliers; our Procurement Academy Programme; anti-corruption and bribery awareness training; and corporate responsibility and compliance health checks. We work with our suppliers to ensure that the goods and services that we buy are made, delivered and disposed of in a socially and environmentally responsible manner.

Our sourcing strategies consider a wide range of potential risks. Our plans are aimed at mitigating against, for example, the impact of potential natural disasters or the current global economic conditions on our suppliers. We thereby seek to minimise the risk of not being able to meet our customer and legal commitments or comply with our ethical policies. This helps to minimise our exposure to the loss of revenue, financial penalty and any adverse impact on our brand and reputation.

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: outlook, including revenue trends, EBITDA and free cash flow growth, BT Global Services' EBITDA, restructuring costs, operating cash flow and revenue growth in higher growth economies; net debt reduction and credit rating, shareholder returns including growing dividends and share buyback; the pension scheme recovery plan, operating charge, regular contributions and interest; capital expenditure; effective tax rate; our fibre roll-out programme reach and innovations, increased speeds and speed availability; and the impact of regulation.

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

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services not being realised; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the BT Global Services restructuring programme not being achieved; 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.