Financial results

5 May 2016

BT GROUP PLC

RESULTS FOR THE FOURTH QUARTER AND YEAR TO 31 MARCH 2016

BT Group plc (BT.L) today announced its results for the fourth quarter and year to 31 March 2016.

		Fourth quarter to 31 March 2016 (incl. EE from 29 Jan)		Year to 31 March 2016 (incl. EE from 29 Jan)	
		£m	Change	**£m**	Change
Revenue[1]		**5,656**	22%	**18,909**	6%
Change in underlying revenue[2] excluding transit			1.3%		2.0%
EBITDA[1]		**2,076**	14%	**6,580**	5%
Profit before tax	- adjusted[1]	**1,145**	11%	**3,473**	9%
	- reported	**893**	6%	**3,029**	15%
Earnings per share	- adjusted[1]	**10.2p**	2%	**33.2p**	5%
	- reported	**8.0p**	(5)%	**29.9p**	13%
Full year proposed dividend				**14.0p**	13%
Normalised free cash flow[3]		**1,519**	£252m	**3,098**	£268m
Net debt				**9,845**	£4,726m

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

"This has been a landmark year for BT. We've completed our acquisition of EE, the UK's best 4G mobile network provider, we've passed more than 25m premises with fibre and we've also delivered a strong financial performance. We've met our outlook with our main revenue[4] measure up 2.0%, the best performance for more than seven years. Our profit before tax[1] was up a healthy 9%.

"Customers want to be online wherever they are and we will be there for them. Our multi-billion pound investment plans will see both fibre and 4G reach 95% of the UK and we won't stop there. The UK is a digital leader and our investment in ultrafast broadband will help it stay ahead.

"The integration of EE is going well and we now see the opportunity to deliver more synergies than we originally expected, and at a lower cost. And we're reorganising our business to better serve customers both in the UK and internationally.

"We've invested across the business and are seeing good results. Our BT Sport audiences are up 45 per cent this year following the launch of UEFA Champions League and UEFA Europa League content. BT Mobile has done well since its launch, building a customer base of over 400,000. And in the business market, we've seen very strong demand for our cyber security expertise with our security business growing by 24%.

"Customers are benefiting from our investments but we plan to do more when it comes to service, to meet customers' rising expectations. That's why Openreach is tackling missed appointments, why BT Consumer will be upgrading service levels to next day repair and why we've hired 900 engineers. We've also recruited more than 900 extra contact centre staff. This will enable us to return EE and BT Consumer contact centre work to the UK.

"Our strong overall performance for the year is reflected in our full year dividend, which is up 13%. Our results and the investments we're making position us well to continue to grow in the coming years. In light of our confidence we are setting out financial and dividend guidance for the next two years."

[1] Before specific items. Includes EE from 29 January 2016
[2] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
[3] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
[4] Change in underlying revenue excluding transit

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Key points for the fourth quarter:

- Our acquisition of EE completed on 29 January 2016
- Underlying revenue[1] excluding transit up 1.3%
- Underlying operating costs[2] excluding transit up 2% primarily reflecting our investment in BT Sport Europe
- EBITDA[3] up 14% including £261m from EE
- Openreach achieved 415,000 fibre broadband net additions with other service providers connecting 48% of these
- Combined BT and EE broadband[4] net additions market share of 81%

Key points for the year:

- Underlying revenue[1] excluding transit up 2.0%, our best performance for more than seven years
- EBITDA[3] of £6,580m, up 5%, including £261m from EE
- Earnings per share[3] up 5%
- Normalised free cash flow[5] of £3,098m, up 9%, including £261m impact from EE
- Proposed final dividend of 9.6p, up 13%, giving a full year dividend of 14.0p, also up 13%
- BT Consumer TV customer base grew by 28% to 1.5m
- Fibre broadband available to more than 25m premises

Performance against 2015/16 outlook:

In February we reaffirmed our EBITDA and free cash flow outlook and clarified that we expected underlying revenue excluding transit to grow by 1% to 2%. This outlook excluded the impact of acquiring EE and we have set out below how we performed on this basis.

	2015/16 outlook	**2015/16 performance**
Change in underlying revenue[1] excluding transit[6]	Up 1% - 2%	Up 2%
EBITDA[3, 6]	Modest growth	Up 1%
Normalised free cash flow[5, 6]	c.£2.8bn	£2,837m
Dividend per share	Up 10% - 15%	Up 13%
Share buyback	c.£300m	£315m

Outlook:

Our outlook for 2016/17 and 2017/18 is as follows:

	2016/17	**2017/18**
Change in underlying revenue[1] excluding transit[7]	Growth	Growth
EBITDA[3]	c.£7.9bn	Growth
Normalised free cash flow[5]	£3.1bn - £3.2bn	>£3.6bn
Dividend per share	≥10% growth	≥10% growth
Share buyback	c.£200m	

Our 2016/17 outlook assumes a net investment of around £100m against EBITDA and normalised free cash flow from launching handset offerings to BT Mobile customers.

Also included in the above normalised free cash flow outlook, we expect around £100m of EE integration capital expenditure in each of 2016/17 and 2017/18. We also expect capital expenditure of up to £300m in 2016/17 and around £100m in 2017/18 relating to the Emergency Services Network contract won by EE in December 2015.

[1] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

[2] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals and is before depreciation and amortisation

[3] Before specific items

[4] DSL and fibre

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

[6] Excludes the impact of EE

[7] Measured as though EE had been part of the group from 1 April 2015, see page 4

GROUP RESULTS FOR THE FOURTH QUARTER AND YEAR TO 31 MARCH 2016

	Fourth quarter to 31 March			**Year to 31 March**		
	2016[1]	2015	Change	**2016**[1]	2015	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- adjusted[2]	**5,656**	4,639	22	**18,909**	17,851	6
- reported	**5,586**	4,709	19	**19,042**	17,979	6
- underlying revenue[3] excluding transit			1.3			2.0
EBITDA						
- adjusted[2]	**2,076**	1,819	14	**6,580**	6,271	5
- reported	**1,884**	1,712	10	**6,365**	6,018	6
Operating profit						
- adjusted[2]	**1,289**	1,169	10	**3,950**	3,733	6
- reported	**1,097**	1,062	3	**3,735**	3,480	7
Profit before tax						
- adjusted[2]	**1,145**	1,030	11	**3,473**	3,172	9
- reported	**893**	842	6	**3,029**	2,645	15
Earnings per share						
- adjusted[2]	**10.2p**	10.0p	2	**33.2p**	31.5p	5
- reported	**8.0p**	8.4p	(5)	**29.9p**	26.5p	13
Full year proposed dividend				**14.0p**	12.4p	13
Capital expenditure	**776**	678	14	**2,650**	2,326	14
Normalised free cash flow[4]	**1,519**	1,267	20	**3,098**	2,830	9
Net debt				**9,845**	5,119	£4,726m

Line of business results[2]

	Revenue			**EBITDA**			**Free cash flow**[4]		
Fourth quarter to 31 March	**2016**[1]	2015	Change	**2016**[1]	2015	Change	**2016**[1]	2015	Change
	£m	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**1,753**	1,789	(2)	**366**	347	5	**545**	599	(9)
BT Business	**821**	805	2	**307**	277	11	**243**	229	6
BT Consumer	**1,192**	1,100	8	**311**	317	(2)	**150**	207	(28)
EE	**1,055**	0	n/m	**261**	0	n/m	**310**	0	n/m
BT Wholesale	**509**	571	(11)	**140**	174	(20)	**104**	93	12
Openreach	**1,290**	1,266	2	**700**	698	0	**401**	394	2
Other and intra-group items	**(964)**	(892)	8	**(9)**	6	(250)	**(234)**	(255)	(8)
Total	**5,656**	4,639	22	**2,076**	1,819	14	**1,519**	1,267	20
Year to 31 March									
BT Global Services	**6,530**	6,779	(4)	**1,048**	1,047	0	**475**	349	36
BT Business	**3,130**	3,145	0	**1,076**	1,041	3	**819**	874	(6)
BT Consumer	**4,598**	4,285	7	**1,037**	1,031	1	**762**	813	(6)
EE	**1,055**	0	n/m	**261**	0	n/m	**310**	0	n/m
BT Wholesale	**2,086**	2,157	(3)	**542**	561	(3)	**404**	278	45
Openreach	**5,100**	5,011	2	**2,664**	2,600	2	**1,419**	1,502	(6)
Other and intra-group items	**(3,590)**	(3,526)	2	**(48)**	(9)	433	**(1,091)**	(986)	11
Total	**18,909**	17,851	6	**6,580**	6,271	5	**3,098**	2,830	9

[1] Includes EE from 29 January 2016

[2] Before specific items. Specific items are defined in Note 4 to the condensed consolidated financial statements

[3] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

[4] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments. Line of business operating cash flows exclude interest, tax and integration capital expenditure which are classified within Other

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 EBITDA, reported operating profit, reported profit before tax, reported net finance expense, reported EPS and reported free cash flow 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. Specific items are set out in Note 4. Reconciliations of EBITDA, adjusted profit before tax and adjusted EPS to the nearest measures prepared in accordance with IFRS are provided in Notes 8, 9 and 10 respectively.

2. Trends in underlying revenue, trends in underlying operating costs, and underlying EBITDA are non-GAAP measures which seek to reflect the underlying performance of the group that will contribute to long-term sustainable growth and as such exclude the impact of acquisitions and disposals, foreign exchange movements and any specific items. We focus on the trends in underlying revenue and underlying operating costs excluding transit as transit traffic is low-margin and is affected by reductions in mobile termination rates. Given the significance of the EE acquisition to the group, in 2016/17 we will calculate underlying revenue excluding transit 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.

Enquiries

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We will hold the fourth quarter and full year 2015/16 results presentation for analysts and investors in London at 9.30am today and a simultaneous webcast will be available at www.bt.com/results

We expect to publish the BT Group plc Annual Report & Form 20-F 2016 on 19 May 2016. The Annual General Meeting of BT Group plc will be held at The Motorpoint Arena, Mary Ann Street, Cardiff, CF10 2EQ, on 13 July 2016 at 10:30am.

We expect to announce our results for the first quarter to 30 June 2016 on 28 July 2016.

About BT

BT's purpose is to use the power of communications to make a better world. It is one of the world's leading providers of communications services and solutions, serving customers in more than 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. As at 31 March 2016, BT consisted principally of six customer-facing lines of business: BT Global Services, BT Business, BT Consumer, EE, BT Wholesale and Openreach. With effect from 1 April 2016, the group has been reorganised and the customer-facing lines of business are now: Global Services, Business and Public Sector, Consumer, EE, Wholesale and Ventures, and Openreach.

British Telecommunications plc (BT) is a wholly-owned subsidiary of BT Group plc and encompasses virtually all businesses and assets of the BT Group. BT Group plc is listed on stock exchanges in London and New York. For more information, visit www.btplc.com.

OVERVIEW

Invest for growth

This has been a landmark year for BT. We acquired EE on 29 January, bringing together the UK's best 4G mobile network and the largest superfast fixed network. This makes us the UK's leading converged communications provider. The acquisition supports our strategy of investing for growth, and gives us a great platform to build upon. We want to transform the shape of communications by creating converged products and services to meet the growing demand from UK consumers and businesses.

The investments we've been making have driven our strong financial performance for the year. Our key revenue measure of underlying revenue excluding transit (which excludes EE) was up 2.0%, at the top end of our outlook range of 1% to 2%. And it's our best growth in more than seven years.

This performance was mainly driven by BT Consumer where revenue was up 7% reflecting 17% growth in broadband and TV revenue, helped by our investments in BT Sport Europe and BT Mobile. Openreach revenue was up 2% with fibre broadband growth offsetting regulatory headwinds.

Underlying revenue excluding transit was up 1% in BT Wholesale and down 2% in BT Global Services whilst BT Business remained flat. We're investing in our products, network and expertise to increase our share of spending by business customers. We've improved our product portfolio to meet their needs as they increasingly adopt IP and cloud-based services. This year we also launched a number of cyber security products, including BT Assure Cyber Defence, an advanced security platform for monitoring, detecting and protecting against cyber-threats.

Transform our costs

Our cost transformation approach is based on a methodology honed over a decade and underpinned by forensic data analysis, strong governance and the support of senior management. We've achieved further savings in the year, helped by major end-to-end programmes across multiple lines of business. We're confident there is plenty more we can do and we see the opportunity to take well over £1bn out of our gross costs over the next two years.

Underlying operating costs[1] excluding transit were up 2%. As previously highlighted, we're no longer benefiting from the sale of redundant copper and our costs have been impacted by higher leaver charges (as last year most were included within specific items), a higher pensions operating charge and our investment in BT Sport Europe. Without these effects, underlying operating costs[1] excluding transit would have been down 2%.

Excluding EE, adjusted EBITDA for BT was up 1%, in line with our outlook, with our revenue growth and cost transformation activities more than offsetting the negative cost impacts above. This EBITDA performance contributed to normalised free cash flow of £2,837m excluding EE, again in line with our outlook.

Deliver superior customer service

We've made progress on service in a number of areas this year. Openreach achieved all 60 of the minimum service levels set by Ofcom and, in BT Consumer, complaints are 50% lower where our agents have been multi-skilled. We've also launched a number of tools that give customers greater control over their orders, bills and services. Our new MyBT app, for example, has been downloaded by more than 400,000 people so far, as customers increasingly want to use digital channels for service. View My Engineer also allows customers to track engineer appointments. But in some areas we didn't do as well as we'd intended. For example, it took us longer than it should have to deliver some services, particularly Ethernet products.

Our performance in the first quarter of the year was strong with good service levels. But in the second, third and fourth quarters, our service was significantly impacted by summer electrical storms, system and network outages and winter storms. We recovered well in the fourth quarter and ended the year on a positive trajectory. But this wasn't enough to improve our 'Right First Time' measure which was down 3.0% (2014/15: up 4.7%).

As connectivity becomes ever more critical to how we live and work, our customers have rising expectations of the service we provide. Quality of service is becoming more important than price alone. While we did make improvements in the year, we're not where we want to be. That's why we've hired more than 900 extra contact centre staff and 900 new engineers, why Openreach is tackling missed appointments, why BT Consumer will be upgrading service levels to next day repair, Monday to Saturday, and why both EE and BT Consumer are returning contact centre work to the UK.

[1] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals and is before depreciation and amortisation

Mobility
We acquired EE on 29 January 2016. The purchase consideration comprised 1,595m BT shares valued at £7.5bn and cash of £3.5bn, of which £3.2bn was funded through our committed acquisition facility. After a provisional fair value exercise, we've allocated this consideration between goodwill of £6.5bn and net assets acquired of £4.5bn (see Note 6).

EE has a customer base of 30.6m and we're pleased with its financial performance since we took ownership. BT Mobile has also done well in the year since its launch, building a customer base of over 400,000.

We're making good progress on integrating EE and have identified further synergy opportunities. We now expect cost synergies to reach a run-rate of around £400m per year in the fourth full year (previously around £360m) of which we expect to realise £100m in 2016/17. We also expect the cost of integrating EE to be lower than previously planned, at around £550m. The capital expenditure part of this, including around £100m in both 2016/17 and 2017/18, will not be treated as a specific item and therefore will be reflected in our normalised free cash flow in these years.

Broadband
With Openreach being part of the wider group, we've had the confidence and ability to invest at scale and pace in the UK's digital infrastructure. So far we've passed more than 25m premises with our fibre broadband network, around 85% of the UK. In total, this means 90% of the UK can now get fibre broadband speeds from all networks and we're on track to help bring fibre to 95% of the country by the end of 2017, with plans to go even further.

G.fast technology is now being trialled in three locations, offering speeds of up to 330Mbps and we have a further two trials planned for 2016/17. Openreach will also be conducting two trials of business Fibre-to-the-Premises (FTTP) in Bradford, providing ultrafast speeds of up to 1Gbps. Our lab trials (conducted together with Bell Labs) of XG-FAST technology have achieved speeds of more than 5Gbps. We have a wide range of technologies that we will use to help the UK maintain its position as a leading digital economy.

Openreach achieved 415,000 fibre broadband net additions in the fourth quarter, a decrease of 9% against a strong performance in the previous year. Other service providers connected 48% of these, demonstrating consistent market-wide demand for fibre. We have now connected around 5.9m homes and businesses, 23% of those passed and more than 40% higher than a year ago. Including EE, we added 214,000 retail fibre broadband customers in the quarter, taking our own fibre broadband customer base to 4.1m. This means almost half of our retail broadband customers are now on fibre. The UK broadband market[1] grew by 130,000 in the fourth quarter, of which our retail share was 105,000 or 81%.

TV
BT Consumer now has 1.5m TV customers, an increase of 28% since the start of the year. We've expanded our TV offerings, stimulating more demand for our channels. In July 2015, we launched Europe's very first live sports Ultra HD (4K) channel, BT Sport Ultra HD. We later added Netflix Ultra HD. BT Sport's average daily audience figures increased 45% year on year, from the start of the football season in August to the end of March. For the same period, we saw 39 match events with peak concurrent viewers of over 1m. And the UEFA Europa League last 16 first leg clash between Liverpool and Manchester United generated a peak of more than 2m viewers for the first time.

Transforming our organisation
Our integration of EE into the wider group is well underway, and that has provided the opportunity to reorganise our business to better serve our different types of customers. We've reported our results to 31 March 2016 under six customer-facing lines of business: BT Global Services, BT Business, BT Consumer, EE, BT Wholesale and Openreach. With effect from 1 April 2016, the customer-facing lines of business are now: Global Services, Business and Public Sector, Consumer, EE, Wholesale and Ventures, and Openreach. We will report under this new structure in our first quarter results for 2016/17.

We want to be the leading converged services provider in the UK and the combination of BT's leading fibre network with EE's leading mobile network puts us in a very strong position as the UK market continues its digital transformation. We believe we can offer the products and services that customers want, supported by the best UK networks. This should allow us to grow the number of products and services that we sell. Consumer is targeting a 2.5m increase in its Revenue Generating Units over the next three years.

For business customers, we want to grow our share of their spend, by increasing the number of products and services we sell them. In particular, we see opportunities to exploit our expertise in protecting organisations against cyber-threats, and to sell more IP and cloud-based products, leveraging our Cloud of Clouds strategy. Global Services is aiming to increase its share of spend by its Global Accounts by 10% over the next three years. And Business and Public Sector has the ambition of increasing its Revenue Generating Units by 15% over the same period.

[1] DSL and fibre

We announced in March that our Group Finance Director, Tony Chanmugam, has decided to leave BT after many successful years with the company. He will be replaced by Simon Lowth, who will join in July having served as CFO for a number of major international companies. Following a handover, Tony's focus for a period of time will be on integrating EE into BT.

Income statement

Reported revenue was £19,042m, up 6%. Adjusted revenue, which is before specific items, was £18,909m, also up 6%. EE contributed £1,038m of external revenue in the two months since we acquired it. We had a £127m negative impact from foreign exchange movements, a £109m reduction in transit revenue and a £6m negative impact from disposals. Excluding these, underlying revenue excluding transit was up 2% which is at the top end of our outlook range of growth of 1% to 2%.

Adjusted operating costs[1] increased £749m to £12,329m. Of this £725m relates to EE with a large proportion within Other costs. These were up £406m or 12% for the group, primarily reflecting EE's subscriber acquisition and retention costs, offset by favourable foreign exchange movements. Programme rights charges increased £214m primarily reflecting our investment in BT Sport Europe. Property and energy costs were up 7% and payments to telecommunications operators were up 2%, with these again being impacted by EE. Network operating and IT costs were up 1%. Net labour costs were flat despite leaver costs of £109m (2014/15: £8m), the additional EE employees joining the group and a £27m increase in the pensions operating charge. Underlying operating costs[2] excluding transit were up 2%.

Adjusted EBITDA of £6,580m was up 5%. This included £261m from EE. Excluding foreign exchange movements and the effect of acquisitions and disposals, underlying EBITDA was up 1%.

Depreciation and amortisation increased 4% to £2,630m largely due to £176m from EE. Adjusted net finance expense was £483m, down 14% reflecting a lower weighted average interest rate and lower average net debt during the year.

Adjusted profit before tax was £3,473m, up 9%. Reported profit before tax (which includes specific items) was £3,029m, up 15%. The effective tax rate on the profit before specific items for the year was 17.5% (2014/15: 19.9%).

Adjusted EPS of 33.2p was up 5%. Reported EPS (which includes specific items) was 29.9p, up 13%. These are based on a weighted average number of shares in issue of 8,619m, up 7% reflecting the additional shares we have issued as part of the EE acquisition.

Specific items (see also Note 4)

Specific items resulted in a net charge after tax of £278m (2014/15: £406m). Specific items charged to revenue include £70m in relation to the unwind of an EE acquisition fair value adjustment on deferred income, and is a non-cash item. We have also incurred £124m (2014/15: £26m) of EE acquisition-related costs. Of these £99m (2014/15: £19m) were recognised in operating costs and were primarily advisor fees and stamp duty, and £8m (2014/15: £7m) were in financing costs. An additional £3m was directly related to the shares we issued to EE's previous shareholders in January 2016 as part of the purchase consideration, so we have recognised this amount in equity. We're treating operating costs relating to the integration as specific items and incurred £17m this year. In addition to this, £5m of integration expenditure has been capitalised.

We recognised a £29m property rationalisation cost. We also recognised £203m of both transit revenue and costs, with no EBITDA impact, being the effect of ladder pricing agreements relating to previous years following a Supreme Court judgment in 2014. Last year, we recognised specific revenue and EBITDA of £128m relating to this.

Net interest expense on pensions was £221m (2014/15: £292m). The tax credit on specific items was £70m (2014/15: £121m). We recognised a tax credit of £96m for the re-measurement of deferred tax balances due to the upcoming changes in the UK corporation tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020.

Last year, specific items included a charge of £75m following an assessment of certain regulatory matters, restructuring charges of £315m, a £25m profit on disposal of an associate, a £22m net property rationalisation benefit, and a £6m net profit on the disposal of a number of small businesses.

[1] Before specific items

[2] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals and is before depreciation and amortisation

Capital expenditure

Capital expenditure was £2,650m (2014/15: £2,326m). This consists of gross expenditure of £2,759m (2014/15: £2,718m) which has been reduced by grants of £109m (2014/15: £392m) mainly relating to our activity on the Broadband Delivery UK (BDUK) programme. The total amount of grants recognised is lower than last year as we have deferred £229m of grant income due to strong levels of take-up. This year we increased our base-case assumption for take-up in BDUK areas (from 20% to 30% in the first quarter and again to 33% in the fourth quarter) and 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. Without the impact of the deferral, our capital expenditure would have been £2,421m (2014/15: £2,297m). Much of this increase is due to EE which incurred £111m of capital expenditure in the period since acquisition.

Free cash flow

Normalised free cash flow[1] was up £268m or 9% at £3,098m. The increase primarily reflects growth in EBITDA which includes £261m from EE trading. Normalised free cash flow excluding EE was £2,837m, in line with our outlook.

The net cash cost of specific items was £232m (2014/15: £154m) mainly comprising EE acquisition-related costs of £114m (2014/15: £nil), restructuring costs of £85m (2014/15: £267m) and ladder pricing receipts of £41m (2014/15: £88m). After specific items and a £203m (2014/15: £106m) tax benefit from pension deficit payments, reported free cash flow was £3,069m (2014/15: £2,782m).

We've provided a reconciliation of cash generated from operations to free cash flow in Note 5.

Net debt and liquidity

Net debt was £9,845m at 31 March 2016, an increase of £4,824m since 31 December 2015 and £4,726m higher than 31 March 2015. The increase in the year primarily reflects £3.5bn for the cash element of the EE acquisition, £2.1bn of acquired EE net debt, dividend payments of £1.0bn, pension deficit payments of £0.9bn and £315m for the buyback of 68m shares. These were partially offset by reported free cash flow of £3.1bn. In March we issued £3.0bn of euro denominated bonds to part-repay the £3.2bn drawdown on our £3.6bn committed acquisition facility. As at 31 March 2016, £0.2bn of the facility was still drawn down.

At 31 March 2016 the group held cash and current investment balances of £3.4bn. We have a £1.5bn facility which is undrawn and matures in September 2020.

Pensions (see also Note 11)

The IAS 19 net pension position at 31 March 2016 was a deficit of £5.2bn net of tax (£6.4bn gross of tax), compared with £4.9bn (£5.9bn gross of tax) at 31 December 2015 and £6.1bn (£7.6bn gross of tax) at 31 March 2015. The lower deficit relative to 31 March 2015 primarily reflects deficit payments of £880m (of which £875m relates to the BT Pension Scheme). The 31 March 2016 position includes a net deficit of £0.1bn for the defined benefit scheme operated by EE.

Based on the assumptions at 31 March 2016, the 2016/17 defined benefit pensions operating charge is expected to remain broadly unchanged from 2015/16, as a proportion of pensionable salary. A higher nominal discount rate is expected to reduce the net pension interest expense within specific items from £221m this year to around £210m for 2016/17.

Regulation

In February 2016 Ofcom published its initial conclusions on its Strategic Review of Digital Communications.
Ofcom set out three main conclusions:

- Openreach must make it easier for competitors to use its duct and poles to connect fibre to homes and offices;
- Openreach's governance structure needs to be reformed to better serve UK consumers and businesses, with structural separation from BT a potential last resort; and
- End customers need a better quality of service, including automatic compensation.

We have made proposals to Ofcom for a voluntary agreement that would address Ofcom's concerns and could be implemented quickly, avoiding a prolonged period of uncertainty for the industry. These proposals are centred around a new governance structure for Openreach. Many of Ofcom's proposals are already in place, for example BT's ducts and poles have been open to competitors since 2011.

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

On 28 April 2016 Ofcom published its final Statement on its Business Connectivity Market Review, Leased Lines Charge Control and Cost Attribution Review. This broadly confirmed Ofcom's proposals set out in its Draft Statement published in March, including:

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

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

BT has appealed Ofcom's decision to introduce the VULA margin squeeze test to the Competition Appeals Tribunal (CAT). Our appeal argued that Ofcom had not met the legal or evidential tests to impose such a condition (as covered in ground one of our appeal), and also that Ofcom had erred in law, in fact and / or in the exercise of its discretion in setting the price control (grounds two to five). In March 2016 the CAT issued its judgment on ground one, finding that Ofcom was entitled to impose a regulatory margin squeeze test. Our appeal on the other grounds is being heard by the Competition and Markets Authority (CMA). The CMA's final determination is expected in June or July and it will be subject to ratification by the CAT later in the summer.

In January 2016, we appealed to the CAT about Ofcom's November 2015 decision to remove Sky's wholesale must offer obligation on Sky Sports. We believe that effective remedies are essential to address the failure of competition in the pay-TV market, where Sky has held a dominant position for more than a decade. We expect the hearing to be held in October 2016.

Dividends

The Board is proposing a final dividend of 9.6p, up 13%, giving a full year dividend of 14.0p, also up 13%. Subject to shareholder approval, this will be paid on 5 September 2016 to shareholders on the register at 12 August 2016. The ex-dividend date is 11 August 2016. The final dividend, amounting to approximately £956m (2014/15: £712m), will be recognised as an appropriation of retained earnings in the quarter to 30 September 2016.

Principal risks and uncertainties

The group's principal risks and uncertainties are disclosed in Note 12.

Outlook

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

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

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

GROUP RESULTS FOR THE FOURTH QUARTER TO 31 MARCH 2016

Income statement

Our financial performance in the quarter has been significantly impacted by the inclusion of EE for two months. Revenue of £5,656m was up 22% with a £1,038m contribution from EE, a £27m positive impact from foreign exchange movements and a £22m reduction in transit revenue.

Underlying revenue excluding transit was up 1.3%, reflecting 8% growth in BT Consumer, 2% in Openreach and 2% in BT Business. These more than offset the underlying revenue excluding transit declines in our other lines of business, with BT Wholesale down 8%, reflecting the benefit of ladder pricing revenue recognised in last year, and BT Global Services down 2%.

Adjusted operating costs[1] were up £760m or 27%. Of this £725m relates to EE with a large proportion within Other costs. These were up £342m or 38% for the group, primarily reflecting EE's subscriber acquisition and retention costs. Net labour costs increased £133m or 14% reflecting the additional EE employees joining the group. Payments to telecommunications operators were up £128m or 25%. Programme rights charges were up £76m primarily reflecting our investment in BT Sport Europe. Property and energy costs and network, operating and IT costs were also up £62m and £19m respectively, mainly reflecting the impact from EE.

Adjusted EBITDA increased 14% to £2,076m of which EE contributed £261m. Excluding foreign exchange movements and the effect of acquisitions and disposals, underlying EBITDA was down 1% reflecting the ladder pricing benefit last year. Underlying operating costs[2] excluding transit were up 2%.

Depreciation and amortisation of £787m was up 21%. Adjusted net finance expense was £144m, an increase of 4% reflecting the higher average net debt in the quarter as a result of the acquisition of EE.

Adjusted profit before tax was £1,145m, up 11%. Reported profit before tax (which includes specific items) was £893m, up 6%. The effective tax rate on the profit before specific items for the quarter was 15.1% (Q4 2014/15: 19.9%). Adjusted EPS of 10.2p was up 2%. Reported EPS (which includes specific items) was 8.0p, down 5%. These are based on a weighted average number of shares in issue of 9,457m (Q4 2014/15: 8,221m).

Specific items (see also Note 4)

Specific items in the quarter resulted in a net charge after tax of £216m (Q4 2014/15: £135m). Specific items charged to revenue include £70m in relation to the unwind of the EE acquisition adjustment on deferred income. We recognised EE acquisition-related fees of £82m (Q4 2014/15: £19m) in the quarter as specific operating costs, with a further £3m (Q4 2014/15: £10m) recognised in equity and £5m (Q4 2014/15: £7m) as a finance expense. We're treating operating costs relating to the integration as specific items and incurred £11m this quarter.

We also recognised a £29m property rationalisation cost. Net interest expense on pensions was £55m (Q4 2014/15: £74m). The tax credit on specific items was £34m (Q4 2014/15: £53m).

Last year, specific items included restructuring charges of £157m, a £22m charge following an assessment of certain regulatory matters, and a £22m net property rationalisation benefit.

Capital expenditure

Capital expenditure was £776m, up 14% primarily reflecting £111m from EE. This is after £61m of gross grant funding mainly relating to our activity on the BDUK programme. This was offset by the deferral of £79m of the total grant funding we have accrued to date.

Free cash flow

Normalised free cash flow was £1,519m, up 20%. This reflects the growth in EBITDA of £257m, including EE's contribution. The movement was offset by tax payments and the timing of working capital. The cash cost of specific items was £132m (Q4 2014/15: £3m). Free cash flow, which includes specific items and a £44m (Q4 2014/15: £53m) tax benefit from pension deficit payments, was £1,431m (Q4 2014/15: £1,317m).

[1] Before depreciation and amortisation

[2] Excludes specific items, foreign exchange movements, the effect of acquisitions and disposals and is before depreciation and amortisation

OPERATING REVIEW

BT Global Services

	Fourth quarter to 31 March				Year to 31 March			
	2016	2015	Change		**2016**	2015	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,753**	1,789	(36)	(2)	**6,530**	6,779	(249)	(4)
- underlying excluding transit				(2)				(2)
Operating costs	**1,387**	1,442	(55)	(4)	**5,482**	5,732	(250)	(4)
EBITDA	**366**	347	19	5	**1,048**	1,047	1	0
Depreciation & amortisation	**144**	128	16	13	**518**	519	(1)	0
Operating profit	**222**	219	3	1	**530**	528	2	0
Capital expenditure	**119**	125	(6)	(5)	**415**	468	(53)	(11)
Operating cash flow	**545**	599	(54)	(9)	**475**	349	126	36

Revenue declined 2% in the quarter with a £24m positive impact from foreign exchange movements and a £3m decline in transit revenue. Underlying revenue excluding transit also decreased 2% primarily reflecting lower revenue in the UK and in the US and Canada. For the year, revenue declined 4% including a £105m negative impact from foreign exchange movements and a £30m decline in transit revenue. Underlying revenue excluding transit declined 2% for the year, an improvement on the 4% decline the year before.

Revenue in the UK was down 2% for the quarter primarily reflecting lower public sector revenue. In the high-growth regions[1] underlying revenue excluding transit was flat for the quarter. This was below the growth rate in the third quarter due to the timing of milestone-related revenue in the AMEA[2] region within the year. For the full year underlying revenue excluding transit grew 12% in AMEA. In the US and Canada underlying revenue excluding transit declined 13% for the quarter reflecting the ongoing impact of a major customer insourcing services. In Continental Europe underlying revenue excluding transit was up 2%. We have seen very strong demand for our cyber security expertise with our security business growing by 24%.

Total order intake was £1.5bn in the quarter, down 25% after last year benefited from some large contract re-signs. For the year, order intake was down 4% to £6.2bn. Excluding renewals, the order intake grew in the year. In the quarter, we signed a contract with Kingfisher, which owns B&Q and Screwfix, for network services in the UK. In Continental Europe we signed a contract with Nexans for network services in 40 countries, including voice and data, fixed and mobile, security and cloud-based collaboration services. We also signed a contract with Panalpina, one of the world's leading freight and logistics companies, to transform and manage their global communications infrastructure for 15,000 employees in more than 75 countries. In Australia, we signed a contract with ALS for a global managed network comprising WAN services, internet access, cloud connectivity, network acceleration and optimisation as well as managed security services.

During the quarter, we launched BT Connect Intelligence IWAN, an SDN capability that helps customers to better manage their network traffic and secure their business applications. Building on our Cloud of Clouds strategy, our Cloud Connect customers can now connect directly to Salesforce's Customer Success Platform. We also announced an agreement to work with Intel Security to develop new solutions that help organisations improve security and prevent cyber-attacks.

Operating costs declined 4% for the quarter and for the year. Underlying operating costs excluding transit were down 4% for the quarter and 1% for the year reflecting the impact of lower revenue and the benefit of our cost transformation programmes partly offset by a change in margin mix and higher leaver costs. These were £5m in the quarter (Q4 2014/15: £nil) and £25m for the year (2014/15: £nil). EBITDA in the quarter was up 5% and was flat for the year. Excluding foreign exchange movements, underlying EBITDA was up 1% in the quarter and for the year. Depreciation and amortisation was up 13% in the quarter due to the timing of recognition on certain contracts and operating profit of £222m was up 1%.

Capital expenditure declined 4% in the quarter, and 11% in the year, largely reflecting improved efficiencies. Operating cash flow was an inflow of £545m for the quarter (Q4 2014/15: £599m), and £475m for the year. This was an increase of £126m benefiting from timing of contract-specific cash flows and the lower capital expenditure.

[1] Asia Pacific, the Middle East and Africa (AMEA) and Latin America

[2] Asia Pacific, the Middle East and Africa (AMEA)

BT Business

	Fourth quarter to 31 March				Year to 31 March			
	2016	2015	Change		**2016**	2015	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**821**	805	16	2	**3,130**	3,145	(15)	0
- underlying excluding transit				2				0
Operating costs	**514**	528	(14)	(3)	**2,054**	2,104	(50)	(2)
EBITDA	**307**	277	30	11	**1,076**	1,041	35	3
Depreciation & amortisation	**51**	44	7	16	**198**	180	18	10
Operating profit	**256**	233	23	10	**878**	861	17	2
Capital expenditure	**31**	89	(58)	(65)	**138**	187	(49)	(26)
Operating cash flow	**243**	229	14	6	**819**	874	(55)	(6)

Revenue and underlying revenue excluding transit were up 2% for the quarter, and broadly flat for the year.

SME & Corporate voice revenue was up 1% for the quarter, with higher average revenue per user and higher take-up of VoIP services offsetting the continued fall in business line volumes. The number of traditional lines declined 7%, in line with last quarter, but this was partly offset by a 62% increase in the number of IP lines.

SME & Corporate data and networking revenue increased 1% and IT services revenue declined 1%. BT Ireland underlying revenue excluding transit was up 3% driven by a one-off contract benefit as well as higher call and data volumes in the Republic of Ireland, growth in managed services and continued fibre broadband growth in Northern Ireland. Foreign exchange movements had a £3m positive impact on BT Ireland revenue in the quarter. Other revenue increased 10% due to pricing changes in BT Directories.

Order intake in the quarter decreased 21% to £481m and was down 5% to £1,967m for the year, after last year included a number of large deals such as Primark Stores and Shaw Trust.

Deals signed in the quarter include a new three-year agreement with Equiniti to extend network services, deliver a substantial upgrade to their data network and improve security. Pets at Home purchased new electronic points of sale as part of an upgrade programme for both new stores and their 435 existing stores. In Ireland we signed a deal with Blacknight Internet Solutions to provide data centre, network and infrastructure services.

BT Cloud Voice (our business-grade IP voice service) and BT Cloud Phone (a 'plug and play' IP phone system) continue to perform well. Since the start of the quarter, the number of BT Cloud Voice users increased 29% and the number of BT Cloud Phone users increased 34%.

Our Call Essentials package, aimed at small UK businesses with up to 50 phone lines, is also performing well. We have signed up over 80,000 customers since its launch in the first quarter.

Operating costs on both a reported and underlying basis were down 3% for the quarter and 2% for the year, as a result of our cost transformation activities. EBITDA grew 3% for the year and 11% for the quarter, partly due to the one-off contract benefit in Ireland. Depreciation and amortisation increased £7m for the quarter and operating profit grew 10%.

Capital expenditure decreased £58m for the quarter and £49m for the year mainly due to the investment we made last year in BT Fleet vehicles to support Openreach. Operating cash flow was 6% higher in the quarter reflecting the lower capital expenditure. For the year operating cash flow was down 6%, with the lower capital expenditure more than offset by the timing of working capital movements.

BT Consumer

	Fourth quarter to 31 March				Year to 31 March			
	2016	2015	Change		**2016**	2015	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,192**	1,100	92	8	**4,598**	4,285	313	7
Operating costs	**881**	783	98	13	**3,561**	3,254	307	9
EBITDA	**311**	317	(6)	(2)	**1,037**	1,031	6	1
Depreciation & amortisation	**48**	59	(11)	(19)	**206**	218	(12)	(6)
Operating profit	**263**	258	5	2	**831**	813	18	2
Capital expenditure	**52**	69	(17)	(25)	**206**	207	1	0
Operating cash flow	**150**	207	(57)	(28)	**762**	813	(51)	(6)

Revenue for the quarter was up 8% with a 20% increase in broadband and TV revenue and a 2% increase in calls and lines revenue. For the year, revenue was up 7%. Consumer ARPU increased 7% to £446 driven by broadband, our new BT Sport Europe channels and BT Mobile.

Excluding EE, BT added 94,000 retail broadband customers in the quarter, representing 72% of the DSL and fibre broadband market net additions. Superfast fibre broadband growth continued with 204,000 retail net additions, taking our customer base to 3.9m. Of our broadband customers, 48% are now on fibre.

Our consumer line losses of 18,000, were lower than the prior year (Q4 2014/15: 61,000) but higher than the third quarter as a result of lower broadband sales. In the quarter we announced a free service to combat nuisance calls which will be launched later in the calendar year. By harnessing computing power to analyse large amounts of live data the service will enable customers to divert up to 25 million unwanted calls a week to a junk voicemail box.

We have continued to build on the success of our BT Mobile launch with over 400,000 SIM-only customers signed up to date and customer satisfaction higher than for any other BT Consumer product. As a result of the progress to date and the good demand for the product, next year we will be launching handset offerings to BT Mobile customers. We expect this investment to negatively impact our EBITDA by around £100m in the year.

BT Sport's average daily audience figures, from the start of the football season in August to the end of March, increased 45% year on year. For the same period, we saw 39 match events with peak concurrent viewers of over 1m. And the UEFA Europa League last 16 first leg clash between Liverpool and Manchester United generated a peak of more than 2m viewers, the first time we've hit this milestone.

We added 66,000 TV customers, taking the base to 1.5m customers. In the quarter we launched a new version of the TV app with a new, dedicated kids on-demand and catch-up library, seven more channels and a collection of premium entertainment catch-up content.

We have continued to invest in improving the customer experience and our target is now to answer 90% of BT Consumer customers' calls from within the UK by the end of March 2017. We have already filled more than 900 new roles in our UK contact centres and this quarter announced that we will create an additional 1,000 permanent UK contact centre roles between now and April 2017. We have also announced that from July all our standard line rental customers will receive a faster repair service with any faults fixed 24 hours sooner. And customers with Infinity 1 broadband will see their speeds increase from up to 38Mbps to up to 52Mbps.

Operating costs increased 13% in the quarter and 9% for the year due to costs relating to the first season of our BT Sport Europe channels. EBITDA declined 2% in the quarter but was up 1% for the year. Depreciation and amortisation was down 19% in the quarter and operating profit was up 2%.

Capital expenditure declined 25% in the quarter mainly as a result of lower BT Sport studio costs. Despite this, operating cash flow decreased 28% as a result of working capital movements relating to the timing of our BT Sport Europe rights payments. For the year capital expenditure was flat and operating cash flow decreased by 6%.

EE

	Period[1] to 31 March
	2016
	£m
Revenue	**1,055**
Operating costs	**794**
EBITDA	**261**
Depreciation & amortisation	**176**
Operating profit	**85**
Capital expenditure	**111**
Operating cash flow	**310**

Revenue for the two months since we acquired EE was £1,055m. This consists of mobile service revenue of £913m, fixed and wholesale revenue of £89m and equipment sales of £53m. Of total revenue, £1,038m was external and £17m was internal. Monthly mobile ARPUs in the period were £26.7 for postpaid customers, £3.9 for prepaid and £18.6 on a combined basis.

At the end of the period the total customer base was 30.6m (excluding BT Mobile customers). EE added 54,000 postpaid mobile customers in the two months, taking the postpaid customer base to 15.4m. We signed a number of significant corporate customers including Arriva Trains, and we began connecting users under our Anglian Water and Prudential contracts. The number of prepaid customers reduced by 426,000 taking the base to 8.3m, with a seasonal drop following Christmas trading, faster migrations to postpaid and greater price competition from the MVNO market. The 4G customer base reached 15.1m. The MVNO base and machine to machine bases increased by 28,000 and 77,000 over the two months to 3.7m and 2.3m respectively. EE added 11,000 broadband customers taking the base to 951,000 and customers choosing to take fibre broadband grew by 10,000. Postpaid churn was 1.1% reflecting the high level of customer loyalty.

We were again recognised as the leading UK mobile network, with Rootmetrics naming EE as having the best overall mobile network. We also won the Speedtest fastest mobile network award in the period. We're making good progress with extending our network, with 4G calling now available in Bristol, Hatfield, Birmingham, Manchester, Edinburgh and Belfast.

On 25 April we announced plans for 100% of customer service calls to be handled in the UK and Ireland by the end of 2016. We also announced plans to extend our 4G geographic coverage to 95% of the UK by 2020, from 60% today, significantly increasing the availability of 4G in even the most remote locations.

Operating costs were £794m (of which £69m were internal charges from other parts of the group) resulting in EBITDA of £261m, an EBITDA margin of 25%.

Capital expenditure was £111m as we extended 4G coverage to over 96% of the UK population. Preparation for the Emergency Services Network contract continued in line with agreed milestones.

Operating cash flow of £310m (which excludes interest or tax) benefited from working capital movements.

[1] The period from the acquisition of EE on 29 January 2016 to 31 March 2016

BT Wholesale

	Fourth quarter to 31 March				Year to 31 March			
	2016	2015	Change		**2016**	2015	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**509**	571	(62)	(11)	**2,086**	2,157	(71)	(3)
- underlying excluding transit				(8)				1
Operating costs	**369**	397	(28)	(7)	**1,544**	1,596	(52)	(3)
EBITDA	**140**	174	(34)	(20)	**542**	561	(19)	(3)
Depreciation & amortisation	**49**	53	(4)	(8)	**212**	224	(12)	(5)
Operating profit	**91**	121	(30)	(25)	**330**	337	(7)	(2)
Capital expenditure	**46**	55	(9)	(16)	**177**	210	(33)	(16)
Operating cash flow	**104**	93	11	12	**404**	278	126	45

For the quarter revenue was 11% lower with underlying revenue excluding transit down 8%. This reflects the benefit last year of around £30m of revenue related to ladder pricing that we recognised in the fourth quarter. For the year revenue declined 3% with underlying revenue excluding transit up 1%. This is an improvement on the 7% decline the year before reflecting growth in IP services and Managed Solutions, partly offset by a decline in our traditional calls and lines revenues.

Calls, lines and circuits revenue was down 36% in the quarter mainly reflecting the ladder pricing benefit last year and lower volumes with customers switching to newer IP technologies. Managed Solutions revenue was down 4% in the quarter due to lower connection volumes.

Broadband revenue was down 5%. This was an improvement on last year's decline of 16% for the quarter. While the migration of lines to LLU continues to reduce the copper base, fibre volumes continue to increase, reflecting demand across the market.

IP services revenue was up 26% in the quarter, largely driven by growth in IP Exchange minutes, which were up 30%. In addition, Ethernet continued to grow strongly with a 23% increase in the rental base.

During the quarter the BBC chose BT to provide its next generation broadcast network in a deal worth more than £100m to BT. This will enable the BBC to move to a new, state of the art network from April 2017. Order intake in the quarter was £454m down from £956m last year. For the year it was £1,505m, down around £400m on last year's order intake, but up around £150m excluding orders signed with EE.

Operating costs decreased 7% in the quarter. Underlying operating costs excluding transit reduced 2% reflecting lower cost of sales and the benefit of our cost transformation activities. We reduced selling and general administration costs 7% in the quarter.

EBITDA decreased 20% in the quarter mainly due to the ladder pricing benefit last year and decreased 3% for the year. Depreciation and amortisation decreased 8% in the quarter. Operating profit decreased 25% in the quarter and 2% for the year.

Capital expenditure was £9m lower in the quarter, and down £33m for the year driven by lower spend on sustaining our legacy voice network and because last year included some investments on efficiency programmes.

Operating cash flow was up £11m for the quarter and £126m for the year, with working capital helped by better collections.

Openreach

	Fourth quarter to 31 March				Year to 31 March			
	2016	2015	Change		**2016**	2015	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,290**	1,266	24	2	**5,100**	5,011	89	2
Operating costs	**590**	568	22	4	**2,436**	2,411	25	1
EBITDA	**700**	698	2	0	**2,664**	2,600	64	2
Depreciation & amortisation	**318**	332	(14)	(4)	**1,301**	1,348	(47)	(3)
Operating profit	**382**	366	16	4	**1,363**	1,252	111	9
Capital expenditure	**376**	278	98	35	**1,447**	1,082	365	34
Operating cash flow	**401**	394	7	2	**1,419**	1,502	(83)	(6)

Revenue increased 2% in the quarter and 2% for the year. Regulatory price changes had an overall negative impact of around £30m in the quarter, equivalent to 2% of revenue, and around £130m in the year. In the quarter this was more than offset by 32% growth in fibre broadband revenue.

The UK broadband market[1] increased by 130,000 connections in the quarter compared with 248,000 in the prior year. The physical line base reduced by 29,000 in the quarter but has remained broadly flat over the year.

We achieved 415,000 fibre broadband net additions in the quarter. This was the third highest on record but lower than last year, which had been a record quarter at the time. There are now 5.9m homes and businesses connected to our fibre broadband network, 23% of those passed. Other service providers added 201,000, or just under half of the net connections in the quarter, demonstrating consistent market-wide demand for fibre.

During the quarter, Openreach hit the milestone of bringing fibre broadband to more than 25m premises across the UK. Together with other networks, this means 90% of the UK is able to enjoy fibre broadband speeds. Openreach is building on its G.fast technology trials with two new pilot sites in Cambridgeshire and Kent. 25,000 homes and businesses in these areas will be able to access download speeds of up to 330Mbps using G.fast from their nearest street cabinet. Openreach will also be conducting two trials of business Fibre-to-the-Premises (FTTP) in Bradford, providing ultrafast speeds of up to 1Gbps.

We achieved all 60 of the minimum service levels set by Ofcom for the installation of new lines and for repairs to existing services. This performance is despite the operational pressures of the severe weather and flooding during the year, particularly in January.

Operating costs grew 4% in the quarter, mainly reflecting more repair work to rectify the impact of the floods. There was also no benefit this year from the sale of redundant copper (2014/15: Q4 £6m and full year £29m). EBITDA was flat in the quarter and with depreciation and amortisation 4% lower, operating profit was up 4%. EBITDA increased by 2% for the year.

Capital expenditure was £376m, up £98m or 35%. This was after gross grant funding of £54m (Q4 2014/15: £127m) directly related to our fibre broadband network build in the quarter. The total amount of grants recognised is lower than last year as we have deferred £78m of grant income due to strong levels of take-up. This is primarily because we increased our base-case assumption for take-up from 30% to 33% and 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. Excluding the impact of grants, gross capital expenditure was £352m (Q4 2014/15: £394m).

For the year, capital expenditure grew 34%, reflecting the deferral of £227m of grant funding together with the investments in connecting new homes and businesses, and in Ethernet. Excluding the impact of grants, gross capital expenditure grew 5% and we expect it to grow again in 2016/17.

Operating cash flow increased by 2% in the quarter largely due to the timing of customer receipts. It was down 6% for the year, primarily reflecting the higher capital expenditure.

[1] DSL and fibre

FINANCIAL STATEMENTS

Group income statement
For the fourth quarter to 31 March 2016

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	5,656	(70)	**5,586**
Operating costs	3	(4,367)	(122)	**(4,489)**
Operating profit		1,289	(192)	**1,097**
Finance expense		(147)	(60)	**(207)**
Finance income		3	-	**3**
Net finance expense		(144)	(60)	**(204)**
Profit before tax		1,145	(252)	**893**
Tax		(173)	36	**(137)**
Profit for the period		972	(216)	756
Earnings per share	10			
- basic		10.2p		**8.0p**
- diluted		10.1p		**7.9p**

Group income statement
For the fourth quarter to 31 March 2015

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	4,639	70	**4,709**
Operating costs	3	(3,470)	(177)	**(3,647)**
Operating profit		1,169	(107)	**1,062**
Finance expense		(144)	(81)	**(225)**
Finance income		6	-	**6**
Net finance expense		(138)	(81)	**(219)**
Share of post tax losses of associates and joint ventures		(1)	-	**(1)**
Profit before tax		1,030	(188)	**842**
Tax		(205)	53	**(152)**
Profit for the period		825	(135)	**690**
Earnings per share	10			
- basic		10.0p		**8.4p**
- diluted		9.9p		**8.2p**

Group income statement
For the year to 31 March 2016

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	18,909	133	**19,042**
Operating costs	3	(14,959)	(348)	**(15,307)**
Operating profit		3,950	(215)	**3,735**
Finance expense		(520)	(229)	**(749)**
Finance income		37	-	**37**
Net finance expense		(483)	(229)	**(712)**
Share of post tax profit of associates and joint ventures		6	-	**6**
Profit before tax		3,473	(444)	**3,029**
Tax		(607)	166	**(441)**
Profit for the year		2,866	(278)	**2,588**
Earnings per share	10			
- basic		33.2p		**29.9p**
- diluted		32.8p		**29.6p**

Group income statement
For the year to 31 March 2015

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	17,851	128	**17,979**
Operating costs	3	(14,118)	(381)	**(14,499)**
Operating profit		3,733	(253)	**3,480**
Finance expense		(577)	(299)	**(876)**
Finance income		17	-	**17**
Net finance expense		(560)	(299)	**(859)**
Share of post tax losses of associates and joint ventures		(1)	-	**(1)**
Profit on disposal of interest in associates and joint ventures		-	25	**25**
Profit before tax		3,172	(527)	**2,645**
Tax		(631)	121	**(510)**
Profit for the year		2,541	(406)	**2,135**
Earnings per share	10			
- basic		31.5p		**26.5p**
- diluted		31.0p		**26.1p**

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

	Fourth quarter to 31 March		**Year to 31 March**	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Profit for the period	**756**	690	**2,588**	2,135
Other comprehensive income (loss)				
Items that will not be reclassified to the income statement				
Actuarial (losses) gains relating to retirement benefit obligations	**(576)**	(505)	**755**	(1,051)
Tax on actuarial losses (gains)	**111**	100	**(240)**	208
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations	**77**	(4)	**52**	5
Fair value movements on available-for-sale assets	**(2)**	1	**(2)**	7
Fair value movements on cash flow hedges:				
- net fair value gains	**296**	159	**381**	207
- recognised in income and expense	**(245)**	(100)	**(230)**	(218)
Tax on components of other comprehensive income that may be reclassified	**23**	27	**5**	37
Other comprehensive (loss) profit for the period, net of tax	**(316)**	(322)	**721**	(805)
Total comprehensive income for the period	**440**	368	**3,309**	1,330

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

	Share capital	Share premium	Own shares	Merger reserve	Other reserves	Retained earnings	Total equity
	£m	£m	£m		£m	£m	£m
At 1 April 2014	**408**	**62**	**(829)**	**998**	**449**	**(1,680)**	**(592)**
Profit for the year	-	-	-	-	-	2,135	2,135
Other comprehensive income (loss) before tax	-	-	-	-	219	(1,051)	(832)
Tax on other comprehensive income (loss)	-	-	-	-	37	208	245
Transferred to the income statement	-	-	-	-	(218)	-	(218)
Comprehensive income	-	-	-	-	38	1,292	1,330
Issue of new shares	11	989	-	-	-	-	1,000
Dividends to shareholders	-	-	-	-	-	(925)	(925)
Share-based payments	-	-	-	-	-	70	70
Tax on share-based payments	-	-	-	-	-	54	54
Net buyback of own shares	-	-	664	-	-	(783)	(119)
Other movements	-	-	-	-	-	(10)	(10)
At 1 April 2015	**419**	**1,051**	**(165)**	**998**	**487**	**(1,982)**	**808**
Profit for the year	**-**	-	**-**	**-**	**-**	**2,588**	**2,588**
Other comprehensive income before tax	**-**	-	**-**	**-**	**428**	**758**	**1,186**
Tax on other comprehensive income	**-**	-	**-**	**-**	**5**	**(240)**	**(235)**
Transferred to the income statement	**-**	-	**-**	**-**	**(230)**	**-**	**(230)**
Comprehensive income	**-**	-	**-**	**-**	**203**	**3,106**	**3,309**
Issue of new shares	**80**	-	**-**	**7,424**	**-**	**-**	**7,504**
Dividends to shareholders	**-**	-	**-**	**-**	**-**	**(1,078)**	**(1,078)**
Share-based payments	**-**	-	**-**	**-**	**-**	**58**	**58**
Tax on share-based payments	**-**	-	**-**	**-**	**-**	**12**	**12**
Net buyback of own shares	**-**	-	**50**	**-**	**-**	**(275)**	**(225)**
Other movements	**-**	-	**-**	**-**	**-**	**(1)**	**(1)**
At 31 March 2016	**499**	**1,051**	**(115)**	**8,422**	**690**	**(167)**	**10,380**

Group cash flow statement

	Fourth quarter to 31 March		Year to 31 March	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Profit before tax	**893**	842	**3,029**	2,645
Share-based payments	**12**	16	**58**	70
Net profit on disposal of subsidiaries and interest in associates and joint ventures	**-**	-	**-**	(24)
Share of post tax (profit) losses of associates and joint ventures	**-**	1	**(6)**	1
Profit on disposal of non-current asset investments	**-**	(2)	**-**	(10)
Net finance expense	**204**	219	**712**	859
Depreciation and amortisation	**787**	650	**2,630**	2,538
Decrease (increase) in working capital	**401**	431	**(97)**	(187)
Provisions, pensions and other non-cash movements[1]	**(259)**	(891)	**(891)**	(787)
Cash inflows from operations[2]	**2,038**	1,266	**5,435**	5,105
Tax paid	**(94)**	(23)	**(256)**	(309)
Net cash inflows from operating activities	**1,944**	1,243	**5,179**	4,796
Cash flows from investing activities				
Interest received	**3**	3	**10**	10
Dividends received from associates and joint ventures	**-**	-	**17**	-
Acquisition of associates and joint ventures	**(3)**	(1)	**(8)**	(10)
Acquisition of subsidiaries[3]	**(3,371)**	-	**(3,371)**	(6)
Proceeds on disposal of subsidiaries[3], associates and joint ventures	**-**	-	**-**	26
Purchases of property, plant and equipment and software	**(652)**	(795)	**(2,466)**	(2,418)
Proceeds on disposal of property, plant and equipment	**3**	96	**7**	100
Proceeds on sale of non-current asset investments	**-**	2	**-**	8
Purchases of current financial assets	**(2,509)**	(3,770)	**(8,252)**	(9,898)
Proceeds on disposal of current financial assets	**2,021**	2,395	**8,918**	8,124
Net cash outflows from investing activities	**(4,508)**	(2,070)	**(5,145)**	(4,064)
Cash flows from financing activities				
Interest paid	**(122)**	(108)	**(558)**	(590)
Equity dividends paid	**(365)**	(316)	**(1,075)**	(924)
Proceeds from bank loans and bonds	**3,022**	-	**3,023**	812
Repayment of borrowings[4]	**(8)**	(7)	**(1,283)**	(1,166)
Cash flows from derivatives related to net debt	**128**	138	**79**	297
Net movement on facility loans	**81**	-	**81**	-
Net repayment of commercial paper	**-**	-	**-**	(338)
Proceeds from issue of own shares	**4**	1,006	**90**	1,201
Repurchase of ordinary share capital	**(30)**	(71)	**(315)**	(320)
Net cash inflows (outflows) from financing activities	**2,710**	642	**42**	(1,028)
Net increase (decrease) in cash and cash equivalents	**146**	(185)	**76**	(296)
Opening cash and cash equivalents	**340**	575	**407**	684
Net increase (decrease) in cash and cash equivalents	**146**	(185)	**76**	(296)
Effect of exchange rate movements	**(27)**	17	**(24)**	19
Closing cash and cash equivalents[5]	**459**	407	**459**	407

[1] Includes pension deficit payments of £255m (Q4 2014/15: £876m) in the quarter and £880m in the year (2014/15: £876m)

[2] Includes cash flows relating to TV programme rights

[3] Acquisitions and disposals of subsidiaries are shown net of cash acquired or disposed of

[4] Repayment of borrowings includes the impact of hedging and repayment of lease liabilities

[5] Net of bank overdrafts of £38m at 31 March 2016 (31 March 2015: £27m)

Group balance sheet

	31 March 2016 **£m**	31 March 2015 £m
Non-current assets		
Intangible assets	**15,436**	3,170
Property, plant and equipment	**16,010**	13,505
Derivative financial instruments	**1,462**	1,232
Investments	**46**	44
Associates and joint ventures	**24**	26
Trade and other receivables	**233**	184
Deferred tax assets	**1,247**	1,559
	34,458	19,720
Current assets		
Programme rights	**225**	118
Inventories	**189**	94
Trade and other receivables	**4,063**	3,140
Current tax receivable	**65**	65
Derivative financial instruments	**177**	97
Investments	**2,918**	3,523
Cash and cash equivalents	**497**	434
	8,134	7,471
Current liabilities		
Loans and other borrowings	**3,237**	1,900
Derivative financial instruments	**48**	168
Trade and other payables	**7,289**	5,276
Current tax liabilities	**271**	222
Provisions	**171**	142
	11,016	7,708
Total assets less current liabilities	**31,576**	19,483
Non-current liabilities		
Loans and other borrowings	**11,032**	7,868
Derivative financial instruments	**863**	927
Retirement benefit obligations	**6,382**	7,583
Other payables	**1,105**	927
Deferred tax liabilities	**1,262**	948
Provisions	**552**	422
	21,196	18,675
Equity		
Ordinary shares	**499**	419
Share premium	**1,051**	1,051
Reserves (deficit)	**8,830**	(662)
Total reserves	**10,380**	808
	31,576	19,483

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

The final results for the year to 31 March 2016 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 19 May 2016. The financial statements for the fourth quarter to 31 March 2016 are unaudited.

The financial information set out above does not constitute the company's statutory accounts for the years to 31 March 2016 or 2015 but is derived from those accounts. The auditors have reported on those accounts; their reports (i) were 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 2016 or 31 March 2015. Statutory accounts for the year to 31 March 2015 were approved by the Board of Directors on 6 May 2015, published on 21 May 2015 and delivered to the Registrar of Companies.

2 Operating results – by line of business[1]

	External revenue £m	Internal revenue £m	Group revenue £m	Group EBITDA £m	Group operating profit £m
Fourth quarter to 31 March 2016					
BT Global Services	**1,746**	**7**	**1,753**	**366**	**222**
BT Business	**727**	**94**	**821**	**307**	**256**
BT Consumer	**1,175**	**17**	**1,192**	**311**	**263**
EE	**1,038**	**17**	**1,055**	**261**	**85**
BT Wholesale	**441**	**68**	**509**	**140**	**91**
Openreach	**521**	**769**	**1,290**	**700**	**382**
Other	**8**	**11**	**19**	**(9)**	**(10)**
Intra-group items	**-**	**(983)**	**(983)**	**-**	**-**
Group total	**5,656**	**-**	**5,656**	**2,076**	**1,289**
Less EE contribution	**(1,038)**	**-**	**(1,038)**	**(261)**	**(85)**
Add back elimination of BT internal trade with EE	**69**	**-**	**69**	**-**	**-**
BT excluding EE	**4,687**	**-**	**4,687**	**1,815**	**1,204**
Fourth quarter to 31 March 2015					
BT Global Services	1,781	8	1,789	347	219
BT Business	696	109	805	277	233
BT Consumer	1,083	17	1,100	317	258
BT Wholesale	571	-	571	174	121
Openreach	499	767	1,266	698	366
Other and intra-group items	9	(901)	(892)	6	(28)
Group total	4,639	-	4,639	1,819	1,169

[1] Before specific items

2 Operating results – by line of business[1]

	External revenue	Internal revenue	Group revenue	Group EBITDA	Group operating profit
	£m	£m	£m	£m	£m
Year to 31 March 2016					
BT Global Services	**6,501**	**29**	**6,530**	**1,048**	**530**
BT Business	**2,753**	**377**	**3,130**	**1,076**	**878**
BT Consumer	**4,533**	**65**	**4,598**	**1,037**	**831**
EE	**1,038**	**17**	**1,055**	**261**	**85**
BT Wholesale	**2,018**	**68**	**2,086**	**542**	**330**
Openreach	**2,042**	**3,058**	**5,100**	**2,664**	**1,363**
Other	**24**	**51**	**75**	**(48)**	**(67)**
Intra-group items	**-**	**(3,665)**	**(3,665)**	**-**	**-**
Group total	**18,909**	**-**	**18,909**	**6,580**	**3,950**
Less EE contribution	**(1,038)**	**-**	**(1,038)**	**(261)**	**(85)**
Add back elimination of BT internal trade with EE	**69**	**-**	**69**	**-**	**-**
BT excluding EE	**17,940**	**-**	**17,940**	**6,319**	**3,865**
Year to 31 March 2015					
BT Global Services	6,750	29	6,779	1,047	528
BT Business	2,746	399	3,145	1,041	861
BT Consumer	4,223	62	4,285	1,031	813
BT Wholesale	2,157	-	2,157	561	337
Openreach	1,947	3,064	5,011	2,600	1,252
Other and intra-group items[2]	28	(3,554)	(3,526)	(9)	(58)
Group total	17,851	-	17,851	6,271	3,733

[1] Before specific items

3 Operating costs

	Fourth quarter to 31 March		Year to 31 March	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Direct labour costs	**1,173**	1,093	**4,530**	4,545
Indirect labour costs	**169**	184	**711**	774
Leaver costs	**11**	4	**109**	8
Total labour costs	**1,353**	1,281	**5,350**	5,327
Capitalised labour	**(288)**	(349)	**(1,156)**	(1,143)
Net labour costs	**1,065**	932	**4,194**	4,184
Payments to telecommunications operators	**640**	512	**2,186**	2,144
Property and energy costs	**307**	245	**1,040**	968
Network operating and IT costs	**159**	140	**610**	605
Programme rights charges	**161**	85	**544**	330
Other operating costs	**1,248**	906	**3,755**	3,349
Operating costs before depreciation, amortisation and specific items	**3,580**	2,820	**12,329**	11,580
Depreciation and amortisation	**787**	650	**2,630**	2,538
Total operating costs before specific items	**4,367**	3,470	**14,959**	14,118
Specific items (Note 4)	**122**	177	**348**	381
Total operating costs	**4,489**	3,647	**15,307**	14,499

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	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Specific revenue:				
Retrospective regulatory matters	**-**	70	**203**	128
Fair value adjustment to deferred revenue on acquisition of EE	**(70)**	-	**(70)**	-
Specific revenue	**(70)**	70	**133**	128
Specific operating costs:				
Retrospective regulatory matters	**-**	22	**203**	75
EE acquisition-related costs	**82**	19	**99**	19
Integration costs	**11**	-	**17**	-
Property rationalisation costs	**29**	45	**29**	45
Restructuring charges	**-**	157	**-**	315
Profit on disposal of property	**-**	(67)	**-**	(67)
Loss (profit) on disposal of businesses	**-**	1	**-**	(6)
Specific operating costs	**122**	177	**348**	381
EBITDA impact (Note 8)	**192**	107	**215**	253
Net interest expense on pensions	**55**	74	**221**	292
EE acquisition-related finance costs	**5**	7	**8**	7
Profit on disposal of interest in associates and joint ventures	**-**	-	**-**	(25)
Net specific items charge before tax	**252**	188	**444**	527
Tax credit on specific items before tax	**(34)**	(53)	**(70)**	(121)
Tax credit on re-measurement of deferred tax	**(2)**	-	**(96)**	-
Net specific items charge after tax	**216**	135	**278**	406

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	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Cash generated from operations	**2,038**	1,266	**5,435**	5,105
Tax paid	**(94)**	(23)	**(256)**	(309)
Net cash inflows from operating activities	**1,944**	1,243	**5,179**	4,796
Add back pension deficit payments	**255**	876	**880**	876
Included in cash flows from investing activities				
Net purchase of property, plant and equipment and software	**(649)**	(699)	**(2,459)**	(2,318)
Interest received	**3**	3	**10**	10
Dividends received from associates and joint ventures	**-**	-	**17**	-
Proceeds on sale of non-current asset investments	**-**	2	**-**	8
Included in cash flows from financing activities				
Interest paid	**(122)**	(108)	**(558)**	(590)
Reported free cash flow	**1,431**	1,317	**3,069**	2,782
Net cash flow from specific items	**132**	3	**232**	154
Cash tax benefit of pension deficit payments	**(44)**	(53)	**(203)**	(106)
Normalised free cash flow	**1,519**	1,267	**3,098**	2,830

6 Business combinations

On 29 January 2016 the group acquired the entire share capital of EE Limited (EE) from Deutsche Telekom and Orange. The acquisition will enable the group to bring together the UK's best 4G mobile network with the largest superfast fixed network. The enlarged group will be the UK's leading communications provider which means we're best placed to meet the demand we expect for converged products and services. We did not make any other material acquisitions in the year ended 31 March 2016.

Details of the purchase consideration, the provisional fair values of the net assets acquired and provisional goodwill arising on the acquisition of EE are set out below:

	£m
Purchase consideration:	
Cash paid	**3,464**
Ordinary shares issued	**7,507**
Total purchase consideration	**10,971**

BT issued 1,595m new shares, representing 16% of BT's post acquisition issued share capital, as part of the consideration for EE. These were valued at £7,507m based on the published opening share price on 29 January 2016 of 470.7p per share, the day when the shares were admitted to trading. Of the consideration paid, £80m, being the nominal value, was credited to share capital and £7,424m, net of £3m share issue costs, was credited to a merger reserve. The transaction qualifies for merger accounting under section 612 of the Companies Act 2006. The provisional fair values of the assets and liabilities acquired are as follows:

	Provisional fair values £m
Non-current assets	
Intangible assets: customer relationships	**2,610**
Intangible assets: brands	**402**
Intangible assets: telecommunications licences	**2,524**
Intangible assets: software licences	**415**
Property, plant and equipment	**2,270**
Other non-current assets	**27**
	8,248
Current assets	
Inventories	**94**
Trade and other receivables	**696**
Prepayments	**128**
Derivative financial instruments	**23**
Investments	**23**
Cash and cash equivalents	**93**
	1,057
Current liabilities	
Loans and other borrowings	**575**
Trade and other payables	**1,819**
	2,394
Non-current liabilities	
Loans and other borrowings	**1,681**
Derivative financial instruments	**37**
Retirement benefit obligations	**113**
Other payables	**22**
Deferred tax liabilities	**298**
Provisions	**219**
	2,370
Fair value of identifiable net assets acquired	**4,541**
Add: goodwill	**6,430**
Total purchase consideration	**10,971**

The fair values are after adjustments to align EE to BT's accounting policies. These fair values and resulting goodwill are provisional and could change, as permitted under IFRS 3 *Business Combinations*, should any revisions to the purchase consideration or to the fair value of the assets and liabilities be identified in the year from acquisition date.

Purchase consideration net of cash acquired

Of the total £10,971m consideration, £3,464m was satisfied in cash and a reconciliation between this amount and the net cash outflow arising on the acquisition of EE is as follows:

	£m
Outflow of cash to acquire subsidiary	
Cash consideration	**3,464**
Less: Cash and cash equivalents acquired	**93**
Net outflow of cash – investing activities	**3,371**

Goodwill

Goodwill of £6,430m arising from the acquisition is attributable to the revenue synergies expected to be generated from new cross-selling and bundling opportunities across the enlarged customer base as well as EE's ability to generate a new subscriber base in the future to replace subscriber churn. It also includes expected benefits from the existing workforce skills and expertise, and savings on operating costs and capital expenditure as a result of joint efficiencies expected from being part of the enlarged group. None of the goodwill recognised is expected to be deductible for income tax purposes.

For the year ended 31 March 2016, goodwill arising on the acquisition has been allocated to the EE, BT Consumer and BT Business. BT Consumer and BT Business have been allocated a portion of the goodwill as a result of the benefits we expect to arise in these Cash Generating Unit's (CGUs), mainly from synergies. From 1 April 2016, certain businesses within EE will be integrated into other lines of business as part of the re-organisation. The goodwill relating to EE will therefore be re-allocated to other CGUs for the year ended 31 March 2017.

Acquired receivables

The fair value of acquired trade receivables was £696m. The gross contractual amount for trade receivables due is £784m of which £88m is expected to be uncollectible.

Revenue and profit contribution

From the date of acquisition to 31 March 2016, EE contributed revenues before specific items of £1,038m and EBITDA before specific items of £261m to the group. If the acquisition had occurred on 1 April 2015, the consolidated pro-forma revenue and EBITDA for the year ended 31 March 2016 would have been £23,722m and £7,948m respectively. These amounts have been calculated using the subsidiary's results and aligning them for differences in accounting policies, and are net of any intercompany transactions.

Acquisition-related costs included within specific items amounted to £107m in the year (2014/15: £26m). These mainly comprise advisory and transaction fees, financial advisory costs, stamp duty, legal fees, due diligence reporting and assurance services.

7 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	
	2016	2015
	£m	£m
Loans and other borrowings[1]	**14,269**	9,768
Cash and cash equivalents	**(497)**	(434)
Current asset investments	**(2,918)**	(3,523)
	10,854	5,811
Adjustments:		
To re-translate currency denominated balances at swapped rates where hedged	**(652)**	(357)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	**(357)**	(335)
Net debt	**9,845**	5,119

8 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.

	Fourth quarter to 31 March		Year to 31 March	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Reported profit before tax	**893**	842	**3,029**	2,645
Share of post tax losses (profits) of associates and joint ventures	**-**	1	**(6)**	1
Profit on disposal of interest in associates and joint ventures	**-**	-	**-**	(25)
Net finance expense	**204**	219	**712**	859
Operating profit	**1,097**	1,062	**3,735**	3,480
Depreciation and amortisation	**787**	650	**2,630**	2,538
Reported EBITDA	**1,884**	1,712	**6,365**	6,018
Specific items (Note 4)	**192**	107	**215**	253
Adjusted EBITDA	**2,076**	1,819	**6,580**	6,271

[1] Includes overdrafts of £38m at 31 March 2016 (31 March 2015: £27m)

9 Reconciliation of adjusted profit before tax

	Fourth quarter to 31 March		Year to 31 March	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Reported profit before tax	**893**	842	**3,029**	2,645
Specific items (Note 4)	**252**	188	**444**	527
Adjusted profit before tax	**1,145**	1,030	**3,473**	3,172

10 Reconciliation of adjusted earnings per share

	Fourth quarter to 31 March		Year to 31 March	
	2016	2015	**2016**	2015
	pence per share		pence per share	
Reported basic earnings per share	**8.0**	8.4	**29.9**	26.5
Per share impact of specific items	**2.2**	1.6	**3.3**	5.0
Adjusted earnings per share	**10.2**	10.0	**33.2**	31.5

11 Pensions

	31 March 2016	31 March 2015
	£bn	£bn
IAS 19 liabilities - BTPS	**(49.1)**	(50.7)
Assets – BTPS	**43.1**	43.4
Other schemes deficit	**(0.4)**	(0.3)
IAS 19 deficit, gross of tax	**(6.4)**	(7.6)
IAS 19 deficit, net of tax	**(5.2)**	(6.1)
Discount rate (nominal)	3.30%	3.25%
Discount rate (real)	0.44%	0.39%
RPI inflation	2.85%	2.85%
CPI inflation	1.0% below RPI until 31 March 2017 and 1.2% below RPI thereafter	1.0% below RPI until 31 March 2017 and 1.2% below RPI thereafter

12 Principal risks and uncertainties (extracted from the BT Group plc Annual Report & Form 20-F 2016)

Principal risks and uncertainties

In this section we explain some of the principal risks and uncertainties affecting us. These risks have the potential to impact our business, brand, people, assets, revenue, profits, liquidity or capital resources. The principal risks we described last year have evolved, and so too has our response to them.

Our Enterprise Risk Management framework provides reasonable (but cannot give absolute) assurance that significant risks are identified and addressed. There may be some risks which are unknown to us at present. And there may be some that we consider less significant now but become more important later.

External factors can present both risks and opportunities, to our business and to others. We focus our efforts on predicting and mitigating the risks, while at the same time seeking to capitalise on opportunities that may emerge.

We recognise the particular uncertainty that political and geo-political risks present, both in the UK (for example the forthcoming referendum on Britain's membership of the EU) and globally. We now monitor these through a separate sub-committee of our Group Risk Panel.

In the principal risks section below, we talk about what we are doing to stop our main risks materialising, or to limit their impact. Our principal risks and uncertainties should be considered along with the risk management process, the forward-looking statements in this document and the cautionary statement regarding forward-looking statements, which you can read below.

Our principal risks

Growth in a competitive market

Our markets are characterised by:

- constant and rapid change;
- strong and new competition;
- falling prices and (in some markets) falling revenues;
- technology changes;
- market and product convergence;
- customers moving between providers; and
- regulation to promote competition and cut wholesale prices.

Potential impact

If we don't grow our revenue profitably and sustainably, our cash flows could be impacted. This could limit our ability to invest in the business or pay dividends.

What's changed over the last year?

Last year we did some big things as part of our growth strategy. We:

- acquired EE;
- won FA Premier League rights for the second time;
- launched our BT Sport Europe channel; and
- deployed more of our fibre broadband network.

Our competitors are beginning to react. CK Hutchison is planning to buy Telefonica Europe plc (O2 UK). Virgin Media is expanding its network. Sky is being more aggressive in broadband. Vodafone has entered the consumer home phone market. The market is going to get more difficult – not only because of the moves of our traditional competitors but also from players in neighbouring markets, as the dividing lines between industries keep blurring.

There are also regulatory risks that could threaten revenue growth – particularly Ofcom's 'Business Connectivity Market Review' and 'Wholesale Must Offer' statement on pay-TV sports channels.

How we're mitigating the risks
We stick to our strategy, which means:

- broadening and deepening our customer relationships;
- delivering superior customer service;
- transforming our costs; and
- investing for growth.

If we do that, we'll grow our revenue profitably and sustainably.

We've been investing in areas like fibre, TV and content, voice and mobility, UK business markets, and our global corporate customers. Our cost transformation programmes are still delivering savings. We can also seek changes in regulation to make things fairer – so we can compete harder in neighbouring markets, which'll be better for our customers.

Communications industry regulation
Regulation affects a lot of what we do.

In the UK, after market reviews, Ofcom can make us provide wholesale services on specified terms. Ofcom reviews the shape and size of that regulation every three years and can include controls on the price we charge for regulated products. It can investigate and enforce any regulatory rules in place and impose fines on us if we don't comply.

Ofcom also has powers to regulate the terms on which we get supplied with certain services – for instance, mobile call termination and wholesale access to certain pay TV channels. This can increase our costs and affects the scope of services we can provide to customers. Ofcom can also sort out disputes between us and other communications providers about the terms on which services are supplied.

Outside the UK, general licensing requirements can make it tough for us to enter markets and compete. Regulation will also define the terms on which we can buy wholesale services from others.

Potential impact
Regulatory rules can affect our ability to compete effectively and earn revenues. UK regulation has the biggest impact – because there we have to supply wholesale access products on regulated terms.

Around £5.7bn of our revenue (£3.3bn of which is to downstream parts of BT) is from supplying wholesale services to markets where Ofcom has found us to have significant market power. Most of these revenues are from products with regulated prices which we also have to cut each year by a defined, real-term percentage. The regulatory controls usually last for three years and hold back revenues during that time.

Where other CPs ask Ofcom to sort out disputes with us, there's a risk that Ofcom may set the prices we supply services at, and/or make us provide specific services. In some circumstances, Ofcom can adjust past prices and make us pay back CPs.

Regulation outside the UK can hit our revenue too. For example, overly-restrictive licensing requirements or ineffective regulation of access to other networks mean we might not be able to compete fairly. Regulation can also define and control the terms of access to necessary regulated inputs, which raises our costs.

What's changed over the last year?
There has been a lot of regulatory activity in different areas. Alongside the standard cycle of market reviews, in March 2015 Ofcom announced an overarching strategic review of the digital communications market. In February 2016 it set out its initial conclusions. Some of these could impact our operations, revenues and costs if they're adopted, for example:

- strengthening Openreach's functional separation;
- keeping structural separation on the table;
- reducing regulation where it's no longer required; and
- relying on more end-to-end fibre-based competition.

How we're mitigating the risks
Our team of regulatory specialists include economists and accountants. Together with legal experts and external advisers they continuously check for potential disputes with other CPs and look for opportunities to change regulatory rules. They talk continually with regulators and other key influencers to understand the outlook and to make sure we make our positions clear.

We push for fair, proportionate, consistent and evidenced-based regulation everywhere we do business. Whenever there are market reviews, charge controls, and disputes or investigations we put forward evidence and analysis. This helps us manage the risks around decisions in any particular year.

We can appeal any regulatory decisions we think are wrong. We can also raise disputes or complain (under the relevant regulatory framework or competition law) where we have problems getting access to wholesale services – like to wholesale pay TV channels or to other access networks.

Pensions

We have a large funding obligation to our main defined benefit pension scheme in the UK, the BT Pension Scheme (BTPS or Scheme). The BTPS faces similar risks to other defined benefit schemes. Things like future low investment returns, high inflation, longer life expectancy and regulatory changes may all mean the BTPS becomes more of a financial burden.

Potential impact

Our contributions to the BTPS are next due to be reviewed at the triennial funding valuation as at 30 June 2017. If there's an increase in the pension deficit, then we could have to increase deficit payments into the Scheme. That might affect our share price and credit rating. If our credit rating fell in future, it would cost us more to borrow money and we might not get such flexible borrowing terms. Higher deficit payments could mean less money available to invest, pay out as dividends or repay debt as it matures.

What's changed over the last year?

The last funding valuation of the BTPS, as at 30 June 2014, provided certainty over what we need to pay until the next triennial valuation is concluded.

Things like financial market conditions and expected future investment returns at the valuation date affect the funding position. When considering expected future returns, different factors are reviewed including yields (or returns) on government bonds, which have dropped significantly since 30 June 2014. If a lower investment return is assumed at the next valuation our liabilities would likely go up, which may lead to bigger deficit payments.

EE operates the EE Pension Scheme (EEPS) which has a defined benefit section that was closed to future benefit accrual in 2014. The EEPS represents less than 2% of the group's retirement benefit obligation. The latest valuation for the EEPS is being performed as at 31 December 2015.

How we're mitigating the risks

The investment performance and liability experience are regularly reviewed by both us and the Trustee of the BTPS. We also consider the associated risks and possible mitigations. The assets of the BTPS are well diversified, softening the impact of sharp drops in the value of individual asset classes. This helps us maintain a reasonable balance of risk and return.

Our financial strength and cash generation provide a level of protection against the impact of changes in the funding position of the BTPS. The funding liabilities also include some buffer against future negative experience, as legislation requires that liabilities are calculated on a prudent basis.

Security & resilience

Resilient IT systems, networks and associated infrastructure are essential to our commercial success. There are a lot of different hazards that could significantly interrupt our services.

These include the evolving threat of cyber-attack, as hackers increasingly see Internet Service Providers (ISPs) as attractive targets. Others include component failure, physical attack, copper cable or equipment theft, fire, explosion, flooding and extreme weather, power failure, overheating or extreme cold, problems encountered during upgrades and major changes, and suppliers failing to meet their obligations.

Potential impact

A malicious cyber-attack or breach of security could mean our data is lost, corrupted, disclosed or ransomed, or that our services are interrupted. We might have to pay fines, contract penalties and compensation, and have to operate under sanctions or temporary arrangements whilst we recover and put things right.

A big interruption to our services, from cyber-attack or otherwise, could mean immediate financial losses from fraud and theft; contract cancellations; lost revenue from not being able to process orders and invoices; contractual penalties; lost productivity and unplanned costs to restore and improve our security; prosecution and fines. Ultimately individuals' welfare could be put at risk where we weren't able to provide services or personal data was misappropriated.

Our revenues, new business and cash flow could suffer, and restoring our reputation and re-building our market share might take an extended period of time.

What's changed over the last year?
We've invested in scanning and monitoring tools and automated cyber defences. But the rate of major cyber-related incidents needing a manual response keeps rising. We've increased the size of our Cyber Defence Operations team accordingly. To probe for vulnerabilities they simulate cyber-attacks. When we learn of potential attack routes, or get intelligence about attacks on similar organisations, we treat the information proactively and resolve it with the same speed and rigour as a real attack.

We've reviewed the resilience and disaster recovery capability of our critical systems, main data centres and our most important exchanges. This has helped us make judgements on where to invest in better and stronger systems and infrastructure. We're also continuing to develop cross-site recovery for our critical systems where this didn't previously exist. There are also several major change programmes underway to intensify IT and network controls to meet new levels of risk.

How we're mitigating the risks
We use encryption to prevent unauthorised access to data travelling over our networks, or through direct access to computers and removable storage devices.

But encryption alone can't eliminate this risk. People can be tricked into downloading malware or giving away information by phone or email. So we also implement extra layers of access control, block as many malicious emails as we can, and run awareness campaigns for customers and employees to make sure they stay vigilant.

We ask suppliers for evidence of compliance with our security policies. We simulate cyber-attacks to test how well protected our websites, networks and internal controls are.

A control framework helps us prevent service interruptions, supported by tried and tested recovery capabilities. Proactive problem management helps us address the root causes of common incidents.

We continue to invest in resilience and recovery capabilities for critical IT systems, as well as addressing vulnerabilities in our physical estate as we become aware of them. We also have a rolling programme of major incident simulations to test and refine our procedures for crises.

By replacing equipment approaching the end of its service life, we're moving more of our legacy estate to new, more resilient facilities. We've also made sure that we have geographically distributed locations that support cross-site recovery.

Major contracts
We have a number of complex and high-value national and multinational customer contracts. The revenue and profitability of these contracts are affected by things like: variation in cost; achieving cost savings anticipated in contract pricing (both in terms of scale and time); delays in delivering or achieving agreed milestones owing to factors either in or out of our control; changes in customers'requirements, their budgets, strategies or businesses; and our suppliers' performance. Any of these factors could make a contract less profitable or even loss-making.

The degree of risk varies with the scope and life of the contract and is typically higher in the early stages. Some customer contracts need investment in the early stages, which we then expect to recover over the life of the contract.

Major contracts often involve implementing new systems and communications networks, transforming legacy networks and developing new technologies. Delays or missed milestones might have an impact on us recovering these upfront costs. There is substantial performance risk in some of these highly complex contracts.

Potential impact
If we don't manage and meet our commitments under these contracts – or if customers'needs, budgets, strategies or businesses change – then our expected future revenue, profitability and cash generation may go down. Unexpectedly high costs associated with delivering particular transformational contracts could also hit profitability. Earnings may drop. Contracts may even become loss-making through loss of revenue, changes to customers'businesses (due to, for example, mergers or acquisitions), business failure or contract termination.

We're still delivering lots of contracts with local authorities through regional fibre deployment programmes including the Broadband Delivery UK programme (BDUK). As with our other major contracts, if we failed to deliver these contracts successfully it might lead to reduced future revenue, profitability and cash generation.

As well as carrying a higher reputational risk, these contracts present specific risks around deployment, delivery and our ability to recover public funding. We also have an obligation to potentially either re- invest or repay grant funding depending on lots of different factors – including how many customers take up a new service.

What's changed over the last year?
Tough market conditions and competitive pressures continue in many global regions, while in some we're seeing bigger growth in volume of business because of our previous investments. The risk landscape changes accordingly, as does our focus of risk support and review.

Of particular note for 2015/16 has been the way the BDUK programme has helped UK broadband fibre implementation mature, cutting the associated delivery risks. But these risks have partly been replaced by new challenges from the next smaller tranche of contracts (with their associated geographic and technical risks). While our broadband contracts carry a different risk profile to other major corporate contracts, we apply our governance and reporting processes to make sure we identify risks and mitigation activities and report them to management.

How we're mitigating the risks
At both group and line of business-level we have governance, risk management and reporting processes in place. Independent audits and the checks and balances in individual contracts provide assurance through an independent review programme. To track progress, we monitor how we're doing on these risks and mitigation actions and report it to senior management. A separate, dedicated team provides assurance for our BDUK projects.

The BT Academy helps support skills development and learning initiatives. These help our Contract Management Profession to better identify and manage risk. We also update new training collateral whenever we learn something new from past experience. The scope and availability of training options continues to improve through BT-wide learning and development initiatives.

Supply chain
Our supply market crosses continents, and there are often several links in our supply chains. So guaranteeing the integrity and continuity of those links is critical to our operations and therefore a big risk to our business.

Global markets expose us to global risks, including climate change. We weigh up and respond to any risks which crop up where geo- political and market forces could affect our suppliers' ability to support us.

A global supply market means better sourcing opportunities, but brings challenges if suppliers become more geographically and culturally diverse from our customers.

Our dealings with suppliers – from the way we choose them, to the contracts we sign, to how we pay them – follow our trading and ethical policies.

Potential impact
If something goes wrong in our supply chain the level of impact can vary. But most of the time it means higher costs for us, and potential damage to our customer service, investments and ultimately our brand. We could lose a lot of money if a big or important supplier went under, especially if that meant us having to change a technology or system. And if we couldn't find an alternative supplier, it might compromise the commitments we make to our customers. And that might lead to breach of contract, lost revenue or penalties.

If any link in our supply chain falls foul of the law, or fails to meet our ethical expectations, that could damage our reputation – possibly leading to legal action and lost revenue.

What's changed over the last year?
We've spent some time assessing several emerging geo-political threats and the impact they'd have on our supply chain. They include Greece's position in the Eurozone and the UK's position in the EU.

There's a continuing trend toward mergers and acquisitions in some of the global markets we source from. It highlights the risk of us depending on single or monopolistic suppliers – particularly those less constrained by regulation and who might charge us more than their domestic customers.

There's generally an increasing (and welcome) focus on human rights. The Modern Slavery Act 2015 means we must examine the potential risk of both modern slavery and human trafficking in our supply chain. Another ethical consideration is the risk of conflict minerals being in our supply chain, which would not only go against our ethical standard but could also harm our reputation.

How we're mitigating the risks
We have a few really critical suppliers. We keep a close eye on their performance and ability to meet their obligations. We tell our divisions when to prepare for the risk of a supplier failing. And our senior leaders continually review how ready we are for those types of events.

We make sure we put in place the right due diligence when it comes to introducing new suppliers and to continuing business with existing ones. That includes checks on company finances, business and quality management systems, accreditations, and ethical and sustainability practices. We manage our top suppliers according to the contracts they've signed. We work with them to drive better ways of working every day, reducing our exposure to risks around poor supplier practices.

Business integrity & ethics
We're proud of our high ethical standards. We don't tolerate bribery. We don't tolerate any forms of corruption. We follow a wide range of local and international anti-corruption and bribery laws – in particular the UK Bribery Act and US Foreign Corrupt Practices Act (FCPA). Both these pieces of legislation have extraterritorial reach, so cover our global operations. As we expand globally, we're increasingly operating in countries seen as having a higher risk of bribery and corruption. We also have to make sure we follow trade sanctions and import and export controls.

Potential impact
If BT people, or associated people like suppliers or agents break anti-corruption, bribery or sanctions legislation there could be big penalties, criminal prosecution and significant brand damage. This could have a major or minor impact on future revenue and cash flow depending on the nature of the breach, the legislation concerned and any penalties. If we were accused of corruption or bribery or violating sanctions regulations that could lead to reputational damage with investors, regulators and customers.

What's changed over the last year?
More and more countries are bringing in anti-corruption and bribery legislation. In the UK, the Serious Fraud Office is now able to bring in deferred prosecutions agreements for fraud, bribery and other economic crime. In terms of enforcement, there are yet to be any big cases stemming from the UK Bribery Act, but US FCPA generates a lot of enforcement actions.

How we're mitigating the risks
We've put a number of controls in place to address risk in this area. These include an anti-corruption and bribery programme and 'The Way We Work' (our statement of business practice, available in 14 languages). We ask all BT people to sign up to its principles and to our anti-corruption and bribery policy. We have policies covering gifts, hospitality, charitable donations and sponsorship. We run training for people in higher risk roles like procurement and sales.

We regularly weigh up our business integrity risks to make sure we've got the right mitigation in place. 'Speak Up' (our confidential hotline) is operated by a third party with all reports passed straight to our Director of Ethics and Compliance for investigation.

Our internal audit team regularly runs checks on our business. External providers also assess areas we think are higher risk, to make sure people understand our policies and that controls are working. We do selective due diligence checks on third parties like suppliers, agents, resellers and distributors. Procurement contracts include anti-corruption and bribery clauses.

Our policy helps us follow all sanctions and export controls that apply to us. That policy means all bids involving a country with sanctions imposed by the EU and/or the US need approval. The policy also mandates everyone uses our internal shipping system to arrange international exports. That system runs compliance checks and flags any orders which need an export licence.

Processing our customers' data
We control and process huge quantities of customer data around the world. So sticking to data privacy laws is something we take extremely seriously. Every single day we process the personal data of millions of customers. It's important that those individuals and businesses feel they can trust us to do the right thing with their data.

Being trusted with our customers'data goes further than making sure it's secure. It means preserving the integrity of the personal data we process. And only keeping the things we need to provide customers with the services they've signed up for. It also means being transparent around how we use that data, making sure the way we process personal data is legal, fair and in line with customers'rights and wishes.

As a communications provider we operate under a stringent 24-hour reporting regime to tell the UK Information Commissioner's Office (ICO) if we become aware of a personal data security breach. We must also tell any affected individuals as quickly as possible.

Different parts of the world approach privacy and data protection differently. Individuals' fundamental right to privacy is reflected in the fact that today data privacy laws are in force in over 100 countries. More and more we (and other multinationals) have to show that we're handling personal data in line with a complex tangle of national data laws and societal ethical expectations.

Potential impact
Failing to stick to data protection and privacy laws could result in possible regulatory enforcement action, fines, class-action, prison sentences and the regulator telling us to stop processing data.

On top of that, we could see huge reputational damage and big financial losses. Those losses could come from fines and damages if we fail to meet our legal requirements, as well as costs resulting from having to close customer contracts and the subsequent customer churn. Companies who've had high profile 'data incidents' have seen their share price hit hard, and suffered ongoing costs from their non-compliance.

What's changed over the last year?
National regulators are more aggressively protecting their citizens' privacy and data protection rights. They're especially targeting companies who fail to do due diligence, or who knowingly accept (or ignore) a related risk for too long. This has been brought into sharp focus by the mushrooming of the data threat environment, with several big organisations suffering incidents.

There's been a general trend toward bigger financial penalties and more frequent public shamings for organisations that break global privacy and data protection laws. The UK Information Commissioner now issues more penalties than Ofcom.

How we're mitigating the risks
We've introduced governance to clarify accountabilities and responsibilities for data activities across the whole business. People, processes and technology have been our core areas of focus. By embedding this governance, we're reinforcing our expectations around personal data with our people, partners and third parties.

The cornerstone of our education and training programme is making sure our people understand our data governance culture and the impact of data risks on our business. Our mandatory data training focuses on individuals' roles, with relevant scenarios, helping highlight the varying data risks of different BT job families. By educating our technical and commercial units we've made a step change in understanding data risks across the group.

We want to give our people the tools they need to make everyday risk based decisions around privacy and data protection without it being a burden or making their job more complicated. Because if we do that, there's a much better chance of data compliance being 'business as usual'. For example, using Privacy Impact Assessments when we develop new products and services makes sure everyone understands privacy issues from the start and builds in the right controls, without any operational impact.

Supporting the third line assurance of our Internal Audit team, the Chief Privacy Officer and his team are a second line of defence. They undertake an annual cycle of audit and monitoring. That is overseen by the BT Compliance Programme Panel, who track and monitor everything until completion.

Health and safety
Our business – and in particular our vast engineering workforce – does a lot of work which is subject to health and safety regulation and enforcement by national authorities.

Potential impact
If we failed to implement and keep up effective health and safety management and governance, that could have a big impact on our people and our finances. It could lead to people getting injured, work related sickness and service disruption for customers.

It could also lead to our people and third parties making compensation claims against us, or fines or other sanctions if we didn't stick to health and safety regulation. There could even be criminal prosecutions against us, our directors and our people – all of which would harm our brand and business.

And of course an unhappy or unhealthy workforce also leads to higher work absence rates and lower performance levels.

What's changed over the last year?
The range and complexity of risks has gone up as we've offered new services to our customers. Those risks include us doing more construction and electrical engineering work on our own network, and the fact that we have new contracts which need our people to work to maintain and extend the UK's mobile network. We've taken a lot of steps to mitigate these risks – especially around how our people work with electricity or high off the ground.

We're building a plan to further embed health and safety into our operations. In the past year, we've seen major legislative change – particularly with the UK introducing Construction, Design and Management Regulations which place new responsibilities on organisations around making construction work safer. We've worked with the UK regulator and others in our sector to respond pragmatically to these demands. We've faced increased enforcement action against us this year, and also a few prosecutions initiated for past incidents.

How we're mitigating the risks
For the past five years we've busied ourselves implementing a Board-endorsed health, safety and wellbeing strategy. And each year, each division produces its own health and safety plan with its own targets and programmes.

Our people managers take responsibility for making sure their teams know how to comply with health and safety standards. We monitor compliance using annual licensing, scheduled refresher training, competency assessments and accreditation processes for higher risk groups. All BT people do training in basic health and safety.

Wherever we do business around the world, we put in place policies and programmes to make sure we stick to our own standards and that those standards meet or exceed minimum legal requirements.

Advice is provided to help management teams understand and control health and safety risks and help everyone feel involved in health, safety and wellbeing. We've created interventions to help promote good mental health and physical wellbeing. We also provide support and rehabilitation services for people who have mental or physical health issues. And we complement these measures with strong attendance management processes.

EE acquisition: risks
Our acquisition of EE has introduced additional risks for BT beyond those captured in our principal risks and uncertainties. This year, given the acquisition has only recently completed, we have set out these risks separately. As the EE risks become more embedded in our Enterprise Risk Management framework, we will integrate the reporting of these risks into our review of our principal risks and uncertainties.

Risks related to the acquisition
Although a number of the risks EE faces are similar in nature to those potentially impacting BT, there are also distinct risks that the group now faces that BT has not previously perceived to be significant threats.

This section outlines some of those new risks and uncertainties, but it is not exhaustive.

Realising acquisition synergies
We are targeting significant synergies from the acquisition including operating cost savings and capital expenditure savings. Integrating the respective businesses is also expected to give rise to further benefits. These include fixed-mobile convergence, the ability to serve customers through a single, seamless platform supported by a single IP network, and being able to offer BT products to EE customers and EE products to BT customers.

The success of the group will depend, in part, on the effectiveness of the integration process and the ability to realise the anticipated benefits and synergies from combining the businesses. Some of the potential challenges in integrating the businesses may not be known at this stage. If these challenges cannot be overcome, for example because of unforeseen difficulties in implementing fixed-mobile convergence or a lack of customer demand for the offerings, the anticipated benefits of the acquisition will not be fully achieved.

Realisation of synergies will depend partly on the rapid and efficient management and co-ordination of the activities of the group's businesses. We may experience difficulties in integrating EE with our existing businesses and may not realise, or it might take longer than expected to realise,certain or all of the perceived benefits of the acquisition. There is also a risk that synergy benefits and growth opportunities from the acquisition may fail to materialise, or may be materially lower than have been estimated. In addition, the costs of generating these synergies may exceed expectations. Further, the group may not achieve the revenue or profitability that justify the original investment, which could result in material, non-cash write-downs. Failure to deliver the anticipated synergies and business opportunities could have a material adverse effect on the group's businesses, financial conditions and results of operations, including our ability to support our pension deficit, service our debt or to pay dividends.

Competition in the mobile market

Competition in the UK mobile telecommunications market is intense. Competition results from, among other things, the existence of established mobile network operators, market entry of alternative and lower cost carriers (such as mobile virtual network operators), technology developments (such as Voice over Internet Protocol (VoIP)), and the ability of other providers to bundle mobile phone services with different products and content (such as broadband and pay-TV). In particular, technologies such as VoIP and so called over-the-top platforms (such as iMessage, Facetime, Blackberry Messenger, WhatsApp and Facebook Messenger) could reduce voice and/or text messaging traffic on mobile networks, which could lead to significant price and revenue reductions.

Increased competition has led to a decline in the prices which EE charges for its mobile services and is expected to lead to further declines in pricing in the future. Competition could also lead to a reduction in the rate at which the group adds new mobile customers, a decrease in the size of the group's mobile market share and a decline in the group's service revenue as customers choose to receive telecommunications services or other competing services from other providers. In addition, there is a risk of increased customer churn as a result of the transition away from the legacy T-Mobile and Orange brands and any potential changes to the branding in future. Churn could also increase as a result of potential Ofcom changes to the mobile switching regime in the UK. An increase in churn rates could adversely affect profitability because the group would experience lower revenue and/or additional selling costs to replace customers or recapture lost revenue.

Delays in the deployment of new technologies

The group's operations will depend partly on the successful deployment of continuously evolving telecommunications technologies, including handsets and network compatibility and components.

EE uses technologies from a number of vendors and incurs significant capital expenditure deploying these technologies. There can be no assurance that common standards and specifications will be achieved, that there will be interoperability across networks, that technologies will be developed according to anticipated schedules, that they will perform according to expectations or that they will achieve commercial acceptance. The introduction of software and other network components may also be delayed. The failure of vendor performance or technology performance to meet the group's expectations or the failure of a technology to achieve commercial acceptance could result in additional capital expenditure by, or a reduction in profitability of, the group.

Technology change and market acceptance

The group may not succeed in making customers sufficiently aware of existing and future services or in creating customer acceptance of these services at the prices the group would want to charge. Also, the group may not identify trends correctly, or may not be able to bring new services to market as quickly or price competitively as our competitors.

These risks exist in the mobile telecommunications area (eg mobile data services) and in non-mobile telecommunications areas (eg mobile payment services based on contactless technology) where there is a risk that differences in the regulatory treatment of different operators based on their choice of technology could put the group at a competitive disadvantage.

Further, as a result of rapid technological progress and the trend towards technological convergence, new and established information and telecommunications technologies or products may not only fail to complement one another but in some cases, may even become a substitute for one another. An example of this is the risk that 'over-the-top' services (being those which are provided by a third party to the end user device) develop substitutes for our own products and services. Another example is VoIP, a technology that is already established in the business customer market and which has now reached the consumer market. The availability of mobile handsets with VoIP functionality may adversely affect the group's pricing structures and market share in its mobile voice telephony business. If the group does not appropriately anticipate the demand for new technologies, and adapt the group's strategies, service offering and cost structures accordingly, the group may be unable to compete effectively, which may have an adverse effect on the group's business and operations.

Supplier and joint venture failure

EE has a number of suppliers identified as critical. EE is also party to a complex and critical network-sharing arrangement with Hutchison 3G UK Limited. The failure of this joint operation to fully support the group's interests and goals, or any material disruption to the operation of the EE network sharing arrangement, could cause significant harm to the group's business.

As demand for smartphone and tablet products increases around the world, there could be shortages in the volume of devices produced as a result of insufficient manufacturing capacity, the lack of availability of internal components such as processors or major supply chain disruptions. This may result in delays in the supply chain which in turn may have an adverse effect on the group's business and operations.

Regulation and spectrum

Regulators, including Ofcom, set annual licence fees for spectrum bands used by EE for voice calls, and data services. In future spectrum auctions, the costs of acquiring spectrum could increase or the group may be unsuccessful in our bids. Any significant increases in spectrum pricing applicable to the group could have a material adverse effect on our business and results of operations.

EE has been found to have significant market power in some areas of wholesale call termination following market reviews and, as is the case for all MNOs, EE's wholesale mobile termination rates are therefore regulated by Ofcom. The scope and form of the regulation is reviewed every three years.

EE is also subject to UK and European Union consumer focused regulation in areas including: the international roaming services provided by EE; processes for consumer switching and non- geographic numbering call services. This regulation may affect the group's market share, competitive position, future profitability and cash.

As technology and market dynamics develop and as the mobile business of EE is integrated into BT, a wider range of existing regulations will apply to the group and a broader range of new and/or modified regulations may be directed at the group.

Network, licence and technology investment

EE (as well as the rest of BT to a lesser extent),has made substantial investments in the acquisition of licences and EE has invested in its mobile networks, including modernising its 2G network, the upgrade of its 3G network and the continued expansion of its 4G network. We expect to continue to make significant investments in our mobile networks due to increased usage and the need to offer new services and greater functionality. We may acquire new spectrum licences with licence conditions, which may include network coverage obligations or increased licence fees. Accordingly, the rate of the group's capital expenditure and costs in future years could increase and exceed those expected or experienced to date.

There can be no assurance that new services will be introduced according to anticipated schedules or that the level of demand for new services will justify the cost of setting them up (in particular, the cost of new spectrum licences and network infrastructure, for example, for 4G services and subsequent evolutions). Failure or a delay in completing networks and launching new services, or increases in the associated costs, could have an adverse effect on the group's business and operations and could result in significant write downs of the value of network spectrum or other licences or other network-related investments.

If the current economic climate worsens, the group may decide, or be required, to scale back capital expenditure. A lasting reduction in capital expenditure levels below certain thresholds could affect the group's ability to invest in its mobile telecommunications network (including additional spectrum), new technology and the group's other businesses and therefore could have an adverse effect on the group's future growth and the value of radio spectrum.

Transmission of radio waves from mobile telephones, transmitters and associated equipment

Media reports have suggested that radio frequency emissions from wireless mobile devices and mobile telecommunications sites may cause health issues, including cancer, and may interfere with some electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. According to the World Health Organisation's Fact Sheet Number 193, last reviewed in October 2014, there are no known adverse effects on health from emissions at levels below internationally recognised health and safety standards. However, the group cannot provide assurance that research in the future will not establish links between radio frequency emissions and health risks.

Whether or not research or studies conclude that there is a link between radio frequency emissions and health, popular concerns about radio frequency emissions may discourage the use of wireless devices, impairing the group's ability to retain customers and attract new customers, and may result in restrictions on the location and operation of mobile communications sites and the usage of the group's wireless technology. These concerns could also lead to litigation against the group. Any restrictions on use or litigation could have an adverse effect on the group's business and operations.

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 for 2016/17 and 2017/18 including revenue growth, EBITDA, free cash flow and capital expenditure; dividend growth and share buyback; net investments and BT Mobile handset offerings; cost transformation and further cost savings; the benefits of acquiring EE, EE integration and cost synergies; our fibre roll out and broadband speeds; Consumer Revenue Generating Units; Global Services' share of spend by its Global Accounts; the defined benefit pensions operating charge and net pension interest expense; G.fast technology and FTTP trials; and the impact of regulatory and legal decisions and assessments and outcomes of appeals.

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 and legal actions, decisions, outcomes of appeal and conditions or requirements in BT's operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs, or impact on customer service; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services not being realised; the timing of entry and profitability of BT in certain communications markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the anticipated benefits and synergies of the EE integration not being delivered; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.