

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

The preliminary results for the year ended 31 March 2009 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 27 May 2009.

The financial information set out in this announcement does not constitute statutory accounts for the year ended 31 March 2009 or 2008. The financial information for the year ended 31 March 2008 is derived from the statutory accounts for that year. The report of the auditors on the statutory accounts for the year ended 31 March 2008 was unqualified and did not contain a statement under section 237 of the Companies Act 1985.

2 Results of businesses

(a) Operating results

	External revenue £m	Internal revenue £m	Group revenue £m	EBITDA (i) £m	Group operating (loss) profit (i) £m
Fourth quarter to 31 March 2009					
BT Global Services	2,366	-	2,366	(1,260)	(1,501)
BT Retail	1,999	102	2,101	435	324
BT Wholesale	845	306	1,151	311	145
Openreach	250	1,043	1,293	512	296
Other	13	-	13	53	(4)
Intra-group items (ii)	-	(1,451)	(1,451)	-	-
Total	5,473	-	5,473	51	(740)
Fourth quarter to 31 March 2008					
BT Global Services	2,226	-	2,226	304	103
BT Retail	2,078	80	2,158	391	272
BT Wholesale	860	320	1,180	320	70
Openreach	249	1,071	1,320	496	324
Other	9	-	9	58	45
Intra-group items (ii)	-	(1,471)	(1,471)	-	-
Total	5,422	-	5,422	1,569	814
Year to 31 March 2009					
BT Global Services	8,828	-	8,828	(1,265)	(2,041)
BT Retail	8,112	359	8,471	1,652	1,227
BT Wholesale	3,430	1,228	4,658	1,272	586
Openreach	978	4,253	5,231	2,025	1,247
Other	42	-	42	229	4
Intra-group items (ii)	-	(5,840)	(5,840)	-	-
Total	21,390	-	21,390	3,913	1,023
Year to 31 March 2008					
BT Global Services	7,889	-	7,889	883	139
BT Retail	8,194	283	8,477	1,511	1,066
BT Wholesale	3,707	1,252	4,959	1,401	508
Openreach	886	4,380	5,266	1,938	1,249
Other	28	-	28	178	60
Intra-group items (ii)	-	(5,915)	(5,915)	-	-
Total	20,704	-	20,704	5,911	3,022

(i) Before specific items and leaver costs.

(ii) Elimination of intra-group revenue between businesses, which is included in the total revenue of the originating business.

In 2008/09 we have allocated any over or under recovery of direct costs in BT Design and BT Operate to the four customer facing lines of business. This amounts to £32m of operating costs and £129m of depreciation in the year to 31 March 2009; of which £(2m) of operating costs and £36m of depreciation were allocated in the fourth quarter. In 2007/08 there was no such allocation as we were transforming the business and developing the trading model.

In 2008/09 we have allocated cumulative foreign exchange losses of £36m arising from the re-translation of intra group balances to the group's corporate treasury operations in the Other category, of which a £4m credit was allocated in the fourth quarter. In 2007/08 there was no such allocation as the amounts involved were immaterial.

2 Results of businesses (continued)

(b) Product revenue analysis

	Fourth quarter to 31 March				Year to 31 March	
	2009 £m	2008 £m	Change £m %		2009 £m	2008 £m
Managed solutions	1,772	1,570	202	13	6,365	5,320
Broadband and convergence	669	677	(8)	(1)	2,637	2,567
Calls and lines	1,499	1,634	(135)	(8)	6,305	6,818
Transit, conveyance, interconnect circuits, WLR, global carrier and other wholesale products	812	811	1	-	3,301	3,398
Other	721	730	(9)	(1)	2,782	2,601
	5,473	5,422	51	1	21,390	20,704

(c) Revenue analysis by customer segment

	Fourth quarter to 31 March				Year to 31 March	
	2009 £m	2008 £m	Change £m %		2009 £m	2008 £m
Major corporate	2,281	2,151	130	6	8,463	7,573
Business	651	676	(25)	(4)	2,631	2,590
Consumer	1,168	1,259	(91)	(7)	4,850	5,071
Wholesale/carrier	1,360	1,327	33	2	5,404	5,442
Other	13	9	4	44	42	28
	5,473	5,422	51	1	21,390	20,704

(d) Capital expenditure on property, plant, equipment, software and motor vehicles

	Fourth quarter to 31 March				Year to 31 March	
	2009 £m	2008 £m	Change £m %		2009 £m	2008 £m
Transmission equipment	291	282	9	3	1,067	1,117
Exchange equipment	9	15	(6)	(40)	44	83
Other network equipment	208	190	18	9	899	1,060
Computers and office equipment	32	55	(23)	(42)	140	181
Software	187	220	(33)	(15)	839	826
Motor vehicles and other	19	9	10	n/m	76	39
Land and buildings	12	3	9	n/m	23	33
	758	774	(16)	(2)	3,088	3,339

(e) Capital expenditure on property, plant, equipment, software and motor vehicles by Line of Business

	Year to 31 March	
	2009 £m	2008 £m
BT Global Services	817	784
BT Retail	321	361
BT Wholesale	607	663
Openreach	966	1,073
Other	377	458
Total	3,088	3,339

3 (a) Operating costs

	Fourth quarter to 31 March		Year to 31 March	
	2009 £m	2008 £m	2009 £m	2008 £m
Staff costs before leaver costs	1,293	1,362	5,302	5,231
Leaver costs	62	56	204	127
Staff costs	1,355	1,418	5,506	5,358
Own work capitalised	(168)	(168)	(673)	(724)
Net staff costs	1,187	1,250	4,833	4,634
Depreciation and amortisation	791	755	2,890	2,889
Payments to telecommunication operators	1,092	1,098	4,266	4,237
Other operating costs	3,289	1,697	8,934	6,408
Total before specific items	6,359	4,800	20,923	18,168
Specific items (note 4)	330	163	395	529
Total	6,689	4,963	21,318	18,697

(b) Leaver costs

	Fourth quarter to 31 March		Year to 31 March	
	2009 £m	2008 £m	2009 £m	2008 £m
BT Global Services	27	11	65	22
BT Retail	9	9	18	16
BT Wholesale	3	5	6	6
Openreach	19	16	29	27
Other	4	15	86	56
Total	62	56	204	127

4 Specific items

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

	Fourth quarter to		Year to 31 March	
	31 March		31 March	
	2009	2008	2009	2008
	£m	£m	£m	£m
BT Global Services restructuring charges				
- Network and products rationalisation	183	-	183	-
- People and property	51	-	51	-
- Intangible and other asset impairment	46	-	46	-
21CN asset impairment and related charges	50	-	50	-
Creation of Openreach and delivery of the Undertakings	-	53	-	53
Restructuring costs – group transformation and reorganisation	-	110	65	402
Write off of circuit inventory and other working capital balances	-	-	-	74
Specific operating costs	330	163	395	529
Loss on sale of non current asset investments	13	-	13	10
Reassessment of carrying value of associate	-	-	(36)	-
Loss (profit) on disposal of associate	-	1	-	(9)
Net specific items charge before tax	343	164	372	530
Tax credit on specific items	(25)	(39)	(43)	(149)
Tax credit in respect of settlement of open tax years	-	(40)	-	(40)
Tax credit on re-measurement of deferred tax	-	-	-	(154)
Net specific items charge after tax	318	85	329	187

5 Net finance expense

	Fourth quarter to		Year to 31 March	
	31 March		31 March	
	2009	2008	2009	2008
	£m	£m	£m	£m
Finance expense ¹ before pension interest	235	217	964	863
Interest on pension scheme liabilities	577	507	2,308	2,028
Finance expense	812	724	3,272	2,891
Finance income before pension income	(6)	(15)	(31)	(65)
Expected return on pension scheme assets	(655)	(612)	(2,621)	(2,448)
Finance income	(661)	(627)	(2,652)	(2,513)
Net finance expense	151	97	620	378
Net finance expense before pensions	229	202	933	798
Interest associated with pensions	(78)	(105)	(313)	(420)
Net finance expense	151	97	620	378

¹ Finance expense in the fourth quarter and year to 31 March 2009 includes a £nil and £29m net charge, respectively, arising from the re-measurement of financial instruments on a fair value basis which under IAS 39, are not in hedging relationships. Finance expense in the fourth quarter and year to 31 March 2008 includes a £2m and £41m net charge, respectively, arising from the re-measurement of financial instruments on a fair value basis which under IAS 39 are not in hedging relationships. This includes a charge in the third quarter of £26m on a low cost borrowing transaction which was marginally earnings positive after tax in the period.

6 Earnings per share

The basic earnings per share are calculated by dividing the profit attributable to shareholders by the average number of shares in issue after deducting the company's shares held by employee share ownership trusts and treasury shares. In calculating the diluted earnings per share, share options outstanding and other potential ordinary shares have been taken into account. The average number of shares in the periods were:

	Fourth quarter to		Year to 31 March	
	31 March			
	2009	2008	2009	2008
	millions of shares		millions of shares	
Basic	7,734	7,904	7,724	8,066
Diluted	7,776	8,037	7,771	8,223

7 (a) Reconciliation of (loss) profit before tax to cash generated from operations

	Fourth quarter to		Year to 31 March	
	31 March			
	2009	2008	2009	2008
	£m	£m	£m	£m
(Loss) profit before tax	(1,279)	494	(134)	1,976
Depreciation and amortisation	791	755	2,890	2,889
Net finance expense	151	97	620	378
Loss on disposal of associates and non current asset investments	13	1	13	1
Decrease (increase) in working capital	1,695	1,195	695	(24)
Provisions, pensions and other movements	780	81	850	(33)
Cash generated from operations	2,151	2,623	4,934	5,187

(b) Free cash flow

	Fourth quarter to		Year to 31 March	
	31 March			
	2009	2008	2009	2008
	£m	£m	£m	£m
Cash generated from operations	2,151	2,623	4,934	5,187
Income taxes (paid) received	(115)	(15)	(228)	299
Net cash inflows from operating activities	2,036	2,608	4,706	5,486
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	(701)	(759)	(3,038)	(3,253)
Net purchase of non current asset investments	-	-	-	(1)
Dividends received from associates	1	-	6	2
Interest received	1	10	19	111
Included in cash flows from financing activities				
Interest paid	(203)	(154)	(956)	(842)
Free cash flow	1,134	1,705	737	1,503

Free cash flow is defined as the net increase in cash and cash equivalents less cash flows from financing activities (except interest paid), less the acquisition or disposal of group undertakings and less the net sale of short term investments. It is not a measure recognised under IFRS but is a key indicator used by management in order to assess operational performance.

(c) Cash and cash equivalents

	At 31 March	
	2009	2008
	£m	£m
Cash at bank and in hand	562	732
Short term deposits	738	703
Cash and cash equivalents	1,300	1,435
Bank overdrafts	(185)	(261)
Total	1,115	1,174

8 Net debt

Net debt at 31 March 2009 was £10,361m (31 March 2008: £9,460m). Net debt consists of loans and other borrowings less current asset investments and cash and cash equivalents. Loans and other borrowings are measured at the net proceeds raised, adjusted to amortise any discount over the term of the debt. For the purpose of this analysis, current asset investments and cash and cash equivalents are measured at the lower of cost and net realisable value. Currency denominated balances within net debt are translated to Sterling at swapped rates where hedged.

This definition of net debt measures balances at the expected value of future undiscounted cash flows due to arise on maturity of financial instruments and removes the balance sheet adjustments made from the re-measurement of hedged risks under fair value hedges and the use of the effective interest method as required by IAS 39. In addition, the gross balances are adjusted to take account of netting arrangements amounting to £160m. Net debt is a non GAAP measure since it is not defined in IFRS but it is a key indicator used by management in order to assess operational performance.

(a) Analysis of net debt

	At 31 March	
	2009	2008
	£m	£m
Loans and other borrowings	13,907	11,342
Cash and cash equivalents	(1,300)	(1,435)
Investments	(163)	(440)
	12,444	9,467
Adjustments:		
To re-translate currency denominated balances at swapped rates where hedged	(1,766)	241
To recognise borrowings at net proceeds adjusted to amortise discount and investments at the lower of cost and net realisable value	(317)	(248)
Net debt	10,361	9,460

After allocating the element of the adjustments which impact loans and other borrowings, gross debt at 31 March 2009 was £11,663m (31 March 2008: £11,076m). The adjustment to retranslate currency denominated balances at swapped rates where hedged reflects the foreign exchange impact of currency swaps which offset the foreign exchange movement on revaluing currency loans and borrowings. At 31 March 2009, the balance sheet net derivative financial instruments movement primarily reflects this currency impact.

(b) Reconciliation of movement in net debt

	Fourth quarter to		Year to 31 March	
	31 March		31 March	
	2009	2008	2009	2008
	£m	£m	£m	£m
Net debt at beginning of period	11,060	10,175	9,460	7,914
Increase (decrease) in net debt resulting from cash flows	(708)	(705)	921	1,510
Net debt assumed or issued on acquisitions	-	4	(2)	35
Currency movements	10	(4)	(36)	(4)
Other non-cash movements	(1)	(10)	18	5
Net debt at end of period	10,361	9,460	10,361	9,460

9 Statement of changes in equity

	Year to 31 March	
	2009	2008
	£m	£m
Shareholders' funds	5,409	4,238
Minority interest	23	34
Equity at beginning of year	5,432	4,272
Total recognised (loss) income for the year	(3,992)	3,920
Share based payment	33	55
Issues of shares	-	32
Tax on items taken directly to equity	(12)	(62)
Net purchase of treasury shares	(63)	(1,529)
Dividends on ordinary shares	(1,222)	(1,241)
Minority interest	(7)	(15)
Net changes in equity for the year	(5,263)	1,160
Equity at end of year		
Shareholders' funds	142	5,409
Minority interest	27	23
Total equity	169	5,432

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

	Fourth quarter to		Year to	
	31 March		31 March	
	2009	2008	2009	2008
	£m	£m	£m	£m
Operating (loss) profit	(1,145)	595	411	2,356
Depreciation and amortisation (note 3)	791	755	2,890	2,889
Leaver costs (note 3)	62	56	204	127
Specific items (note 4)	343	163	408	539
EBITDA before specific items and leaver costs	51	1,569	3,913	5,911
BT Global Services contract and financial review charges	1,303	-	1,639	-
EBITDA before contract and financial review charges, specific items and leaver costs	1,354	1,569	5,552	5,911

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

11 Dividends

The directors recommend a final dividend of 1.1p per share (2007/08: 10.4p). This will be paid, subject to shareholder approval on 7 September 2009 to shareholders who were on this register at 14 August 2009. This final dividend, amounting to approximately £85m (2007/08: £805m) has not been included as a liability as at 31 March 2009. It will be recognised as an appropriation of retained earnings within shareholders' equity in the quarter ended 30 September 2009. This takes the total proposed dividend in relation to the year to 6.5p per share (2007/08: 15.8p per share).