Financial results

13 May 2010

BT GROUP PLC

FINAL RESULTS FOR THE FOURTH QUARTER AND YEAR TO 31 MARCH 2010

AND ANNOUNCEMENT OF FUTURE PLANS

BT Group plc (BT.L) today announces its results for the fourth quarter and year to 31 March 2010. The company is also holding an Investor Day today at which it will provide an update on its business and future plans. All material information is contained in this announcement.

Ian Livingston, Chief Executive, commenting, said:

"We have made good progress this year and have now set clear objectives for the next three years.

"We have improved customer service, are transforming the cost base and have more than doubled free cash flow, but there is still a lot more to do.

"We are investing in the future of our business, enhancing our TV offering and building on opportunities in our Global Services business. Assuming an acceptable environment for investment, we see the potential to roll out fibre to around two-thirds of the UK by 2015. This will take our total fibre investment to £2.5bn which will be managed within our current levels of capital expenditure.

"During the next three year period we expect to improve our underlying revenue trends, and grow EBITDA and free cash flow, while investing in the business, supporting the pension fund, reducing net debt and paying progressive dividends.

"We are on track with our goal of creating a better business with a better future."

Fourth quarter and full year results:

	Fourth quarter to 31 March 2010		Year to 31 March 2010	
	£m	Change %	**£m**	Change %
Adjusted revenue[1]	**5,356**	(3)	**20,911**	(2)
Adjusted EBITDA[1]	**1,530**	16	**5,781**	6
Adjusted earnings per share[1]	**5.2p**	73	**18.6p**	16
Reported earnings per share	**2.7p**	n/m	**13.3p**	n/m
Free cash flow[3]	**1,045**	(8)	**1,933**	162
Net debt[4]			**9,283**	(10)
Proposed full year dividend			**6.9p**	6

Key points:

- Full year results ahead of our outlook for the year
- Revenue down 2% in the year, ahead of expectations
- Total underlying cost reductions[2] of £1,752m in the year
- Capital expenditure reduced by 18% in the year to £2.5bn
- Free cash flow[3] of £1.9bn, an improvement of £1.2bn over last year
- Net debt reduced by over £1bn in the year
- Proposed final dividend of 4.6p, giving 6.9p for the full year

2010/11 Outlook:

• Revenue	c.£20bn
• Operating cost savings[5]	c.£900m
• Adjusted EBITDA[6] after leaver costs	in line with 2009/10
• Free cash flow before specific items[7]	c.£1.8bn
• Net debt	below £9bn

Future financial outlook:

- Expect improving underlying revenue trends from 2010/11 to 2012/13, with growth in 2012/13
- Expect adjusted EBITDA[6] after leaver costs to grow from 2010/11 to 2012/13
- Expect free cash flow before specific items[7] to reach around £2bn by 2012/13
- BT Global Services operating cash flow expected to show further significant improvement in 2010/11 and turn positive in 2011/12
- Progressive dividends over the next three years

Future investment plans:

- Plans to invest a further £1bn (£2.5bn in total) to extend the roll out of fibre to around two-thirds of UK premises by 2015, dependent on acceptable investment environment. This expenditure will be managed within our current levels of capital expenditure of around £2.6bn
- Within our adjusted EBITDA[6] outlook for 2010/11, additional investment of around £200m mainly in fibre, new consumer propositions and expansion in the Asia Pacific region

[1] Before specific items, leaver costs, net interest on pensions and BT Global Services contract and financial review charges in 2008/09. Adjusted revenue is stated before specific items and BT Global Services contract and financial review charges in 2008/09

[2] Underlying operating costs and capital expenditure, before specific items, leaver costs and BT Global Services contract and financial review charges in 2008/09

[3] Before pension deficit payment of £nil in Q4 2009/10 (Q4 2008/09: £nil) and £525m in FY 2009/10 (FY 2008/09: £nil), but after the cash costs of BT Global Services restructuring

[4] Net debt is reconciled in Note 8

[5] Underlying operating costs before specific items, depreciation and amortisation

[6] Before specific items

[7] Before pension deficit payment. Specific items are expected to result in a cash outflow of around £150m in 2010/11

Group results

	Fourth quarter to 31 March			Year to 31 March		
	2010	2009[1]	Change	**2010**	2009[1]	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- adjusted[2]	**5,356**	5,514	(3)	**20,911**	21,431	(2)
- reported	**5,356**	5,473	(2)	**20,859**	21,390	(2)
EBITDA						
- adjusted[2]	**1,530**	1,317	16	**5,781**	5,442	6
- reported	**1,341**	(391)	n/m	**5,162**	3,191	62
Operating profit (loss)						
- adjusted[2]	**742**	526	41	**2,742**	2,552	7
- reported	**553**	(1,182)	n/m	**2,123**	301	n/m
Profit (loss) before tax						
- adjusted[3]	**523**	314	67	**1,877**	1,658	13
- reported	**251**	(1,316)	n/m	**1,007**	(244)	n/m
Earnings (loss) per share						
- adjusted[3]	**5.2p**	3.0p	73	**18.6p**	16.0p	16
- reported	**2.7p**	(13.1)p	n/m	**13.3p**	(2.5)p	n/m
Full year proposed dividend				**6.9p**	6.5p	6
Capital expenditure	**862**	758	14	**2,533**	3,088	(18)
Free cash flow[4]	**1,045**	1,134	(8)	**1,933**	737	162
Net debt[5]				**9,283**	10,361	(10)

Line of business results

	Revenue[1,2]			EBITDA[1,2]		
	2010	2009	Change	**2010**	2009	Change
Fourth quarter to 31 March	**£m**	£m	%	**£m**	£m	%
BT Global Services	**2,292**	2,345	(2)	**177**	32	453
BT Retail	**2,064**	2,149	(4)	**470**	442	6
BT Wholesale	**1,091**	1,151	(5)	**315**	314	-
Openreach	**1,281**	1,293	(1)	**493**	512	(4)
Other	**10**	11	(9)	**75**	17	341
Intra-group items	**(1,382)**	(1,435)	4	**-**	-	-
Total	**5,356**	5,514	(3)	**1,530**	1,317	16

[1] Restated - see Note 1
[2] Before specific items, leaver costs and BT Global Services contract and financial review charges in 2008/09. Adjusted revenue is stated before specific items and BT Global Services contract and financial review charges in 2008/09
[3] Before specific items, leaver costs, net interest on pensions and BT Global Services contract and financial review charges in 2008/09
[4] Before pension deficit payment of £nil in Q4 2009/10 (Q4 2008/09: £nil) and £525m in FY 2009/10 (FY 2008/09: £nil), but after the cash costs of BT Global Services restructuring
[5] Net debt is reconcilied in Note 8
n/m = “not meaningful”

Notes:
Unless otherwise stated, any reference to earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, and operating costs is measured before specific items and leaver costs. In addition, adjusted profit before tax and adjusted earnings per share (EPS) are also shown before net interest on pensions due to the volatile nature of this item (see Notes 10 and 11). Unless otherwise stated, the change in results is year on year. Reported EBITDA, reported operating profit, reported profit before tax and reported EPS are the equivalent statutory measures.

Underlying revenue, underlying operating costs, underlying EBITDA and underlying capital expenditure refer to the measure excluding foreign exchange rate movements and acquisitions. Underlying revenue and operating costs are also stated before specific items, leaver costs and depreciation and amortisation.

The commentary focuses on the trading results before specific items and leaver costs. This is consistent with the way that financial performance is measured by management and we believe allows a meaningful analysis to be made of the trading results of the group. Specific items are defined in Note 4.

The income statement, cash flow statement and balance sheet are provided on pages 13 to 17. A reconciliation of group operating profit to EBITDA (as defined above) is provided in Note 9. A reconciliation of reported profit before tax (as defined above) to adjusted profit before tax is provided in Note 10. A reconciliation of reported EPS to adjusted EPS is provided in Note 11. A definition and reconciliation of free cash flow and net debt are provided in Notes 7 and 8 respectively.

The line of business commentaries also discuss operating cash flow before specific items and leaver costs. Operating cash flow is defined as EBITDA less direct and allocated capital expenditure (net of capital accrual movements), working capital movements and movements in provisions and other non-cash items.

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The fourth quarter and full year 2009/10 results and Investor Day presentation will be held in London commencing at 9.00am today.

The BT Group plc Annual Report and Form 20-F is expected to be published on 26 May 2010. The Annual General Meeting of BT Group plc will be held at The BT Convention Centre, Liverpool on 22 July 2010. Results for the first quarter to 30 June 2010 are expected to be announced on 29 July 2010.

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

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

For more information, visit www.btplc.com

BT GROUP PLC

RESULTS FOR THE YEAR TO 31 MARCH 2010

GROUP RESULTS
Operating results overview

We have delivered full year results ahead of our outlook.

For the full year, adjusted revenue was down 2% at £20,911m, ahead of expectations, largely due to the early delivery of around £100m of revenue, primarily due to significant contract milestones in BT Global Services, without which revenue was down 3%. Excluding favourable foreign exchange movements of £297m and acquisitions of £31m, underlying revenue decreased by 4%. Adjusted EBITDA increased by 6% to £5,781m. Excluding BT Global Services, adjusted EBITDA for the rest of the group increased by 4%, reflecting continued progress in the delivery of cost savings. Foreign exchange movements and acquisitions had a net £20m negative impact on EBITDA. All 2008/09 adjusted and underlying earnings measures are stated before BT Global Services contract and financial review charges of £1,639m.

In the year to 31 March 2010, total underlying operating costs and capital expenditure were reduced by £1,752m, a reduction of 9%, ahead of our outlook of at least £1.5bn.

Underlying group operating costs, excluding depreciation and leaver costs, reduced by 7%. Total labour costs, on an underlying basis, decreased by 16%, reflecting reductions in direct and indirect labour and lower pensions charges. Total labour resource at 31 March 2010 was around 128,000, a 20,000 reduction compared with the prior year, with the majority of the reduction comprising agency and third party resource. Other group operating costs, on an underlying basis, decreased by 2%. Leaver costs were £142m (FY 2008/09: £204m). For 2010/11 onwards, the group and line of business results will be reported after leaver costs as these are considered to be part of our ongoing cost base.

Capital expenditure reduced by £555m to £2,533m, in line with our outlook of around £2.5bn, reflecting the steps taken during the year to improve procurement and efficiency and management of capital projects, while investing significantly in fibre and other programmes.

Depreciation and amortisation increased by 5% to £3,039m reflecting the impact of higher value and shorter lived software, Ethernet and ADSL2+ assets being brought into use during the year.

Net finance expense
Net finance expense before specific items was £1,169m, an increase of £549m, principally due to the notional non-cash pension net interest expense under IAS 19 which was a charge of £279m in the year, compared with a credit of £313m in 2008/09. Net finance expense before pension interest reduced by £54m to £879m reflecting the lower average net debt levels.

Tax
The effective tax rate on the profit before specific items for the year was 22.0% (FY 2008/09: (7.8)%) compared with the UK statutory rate of 28%, reflecting the utilisation of tax losses and continued focus on tax efficiency within the group.

Specific items
Specific items are defined in Note 4. Specific items in the year resulted in a net charge after tax of £107m (FY 2008/09: £329m), the principal components of which are described below.

In 2008/09 we announced details of the BT Global Services new operating model and associated restructuring plan, with total associated charges of around £420m expected to be recorded in 2009/10 and 2010/11. In 2009/10 £301m of these charges have been recognised (FY 2008/09: £280m) principally comprising network, products and supplier rationalisation charges and people and property costs. Further charges of around £175m are expected to be incurred in 2010/11, giving total charges of about £475m, above our original estimate of £420m. The increase reflects the complexities associated with our restructuring programme.

The significant reductions in total labour resource over the last two years have resulted in vacant space within our UK property estate. As a result, as stated at our third quarter results, we have initiated a property rationalisation programme in respect of which we expect to incur total charges of around £300m over the next two years. A charge of £121m has been recognised in 2009/10 (FY 2008/09: £nil) in respect of properties which have now been vacated as a result of which the leases have become onerous, reflecting future commitments to meet rental obligations which exceed future economic benefits.

Following Ofcom's determination in relation to 2Mbps partial private circuits in October 2009, a charge of £52m has been recognised.

We have also recognised a specific item tax credit of £230m, associated interest of £11m and costs of £5m in respect of the settlement of outstanding tax matters with HMRC in July 2009.

Earnings per share

Adjusted EPS increased by 16% to 18.6p due to the improved operating profit, partially offset by the higher net finance expense. Reported EPS was 13.3p (FY 2008/09: loss per share of 2.5p). A reconciliation of reported EPS to adjusted EPS is provided in Note 11.

Cash flow

Free cash flow more than doubled to an inflow of £1,933m, compared with £737m last year, reflecting improved profitability and working capital and lower capital expenditure. A reconciliation of cash generated from operations to free cash flow is provided in Note 7. Net cash inflow from our operating activities in the year was £4,825m (FY 2008/09: £4,706m). Net cash outflow for the purchase of property, plant and equipment and software was £2,480m (FY 2008/09: £3,038m).

Free cash flow was impacted by a number of non recurring items: a tax repayment relating to the settlement of substantially all outstanding tax matters for years up to 2007/08, the unwinding of factoring arrangements, and the cash impact of the BT Global Services restructuring. Excluding these items, free cash flow would have been around £1.7bn for the year.

Net debt and liquidity

Net debt was £9,283m at 31 March 2010 (31 March 2009: £10,361m), a reduction of £1,078m. Net debt is reconciled in Note 8. At 31 March 2010, we had undrawn committed facilities of £1,500m and cash and investments of £1,921m which provide us with a strong liquidity and funding position. In May 2010, the group entered into an additional two year £650m facility agreement. The group has no significant debt maturities until December 2010. The group has liquidity and borrowing facilities which along with operational cash flows and the group's financing strategy will fund these maturities.

Pensions

The IAS 19 net pension position at 31 March 2010 was a deficit of £5.7bn net of tax (£7.9bn gross of tax), compared with a deficit of £2.9bn at 31 March 2009 (£4.0bn gross of tax). The market value of the BT Pension Scheme assets has increased by £6.0bn since 31 March 2009 to £35.3bn at 31 March 2010. However, the discounted value of the liabilities increased by £9.9bn as the discount rate in real terms more than halved in the year to 1.83% (31 March 2009: 3.84%). The liability calculation is based on the AA bond yield of 5.50% (31 March 2009: 6.85%) and future inflation expectations of 3.60% (31 March 2009: 2.90%).

We expect the pensions operating charge for the BT Pension Scheme in 2010/11 to be about £300m, £100m higher than the charge for 2009/10 as a result of the discount rate and inflation assumptions. The net pension interest expense in 2010/11 is expected to be about £210m lower than the net expense for 2009/10, at around £70m, principally due to the increased asset values.

Since the funding valuation at 31 December 2008, the asset values at 31 March 2010 have increased by £4.1bn and the Trustee's estimate that the funding deficit, on the prudent valuation basis, had reduced to about £7.5bn at 31 December 2009.

Dividends

The proposed final dividend of 4.6p gives a full year dividend of 6.9p, an increase of 6% compared with an outlook of around 5%. The Board is committed to paying progressive dividends over the next three years to 2012/13.

Principal risks and uncertainties

The group's principal risks and uncertainties have been extracted from the BT Group plc Annual Report & Form 20-F 2010, which is expected to be published on 26 May 2010, are disclosed in Note 12.

2010/11 Outlook and future plans

We aim to drive shareholder value by making BT a better business by focusing on three areas: customer service delivery, cost transformation and investing for the future. We aim to build on this stronger foundation by focusing on five priorities: driving broadband-based consumer services; being the 'Brand for Business' for UK small and medium enterprises; developing BT Global Services' position as a global leader in networked IT services; being the wholesaler of choice; and being the best network provider in the UK.

As part of our plans for the future, we are today announcing additional investment of around £200m within our EBITDA outlook for 2010/11: mainly in the areas of enhancing our TV offering, introducing other new consumer propositions, fibre roll out and building on opportunities in BT Global Services, particularly in the Asia Pacific region. We are also announcing that, if investment conditions are favourable, we see the potential to extend our current fibre roll out to around two-thirds of UK premises by 2015 for an incremental cost of around £1bn, while maintaining our annual capital expenditure levels at around £2.6bn. We are also announcing today a commercial partnership with OnLive Inc., a Silicon Valley based cloud gaming business, to provide online gaming services in the UK. In conjunction with this commercial partnership, we have taken a 2.6% shareholding in OnLive Inc. Based on the last audited accounts of OnLive Inc., at 31 March 2009, the proportionate value of gross assets that are the subject of this transaction is US$0.5m.

If we are successful in delivering our future plans we expect during the next three year period to be able to improve our underlying revenue trends, and grow EBITDA and free cash flow, while investing in the business, supporting the pension fund, reducing net debt and paying progressive dividends.

For 2010/11 our outlook is:

- Revenue of around £20bn
- Operating cost savings[1] of around £900m
- Adjusted EBITDA[2] after leaver costs in line with last year's level with underlying improvement being offset by the increase in the pension service charge of around £100m and targeted investment in the business of around £200m
- Free cash flow[3] of around £1.8bn before the cash effect of specific items of around £150m, with capital expenditure at around £2.6bn
- BT Global Services operating cash flow expected to show further significant improvement, turning positive in 2011/12
- Net debt below £9bn

Our future outlook is as follows:

- We expect improving underlying revenue trends from 2010/11 to 2012/13, with growth in 2012/13
- BT Global Services revenue expected to grow by 2012/13
- BT Retail expected to show an improvement in revenue trends over the period to 2012/13
- BT Wholesale and Openreach revenue expected to be broadly level over the period to 2012/13
- Adjusted EBITDA[2] after leaver costs expected to grow from 2010/11 to 2012/13 driven by a combination of further cost reductions and improving revenue trends
- Free cash flow[3] before specific items expected to reach around £2bn by 2012/13
- Progressive dividends over the next three years

[1] Underlying operating costs before specific items, depreciation and amortisation
[2] Before specific items
[3] Before pension deficit payment

RESULTS FOR THE FOURTH QUARTER TO 31 MARCH 2010

GROUP RESULTS

Operating results overview

Adjusted revenue was down 3% to £5,356m in the fourth quarter, ahead of expectations, due to the early delivery of significant contract milestones in BT Global Services at the end of the year. Excluding adverse foreign exchange movements of £43m, underlying revenue decreased by 1%. Adjusted EBITDA increased by 16% to £1,530m. Excluding BT Global Services, adjusted EBITDA for the rest of the group increased by 5% to £1,353m, reflecting continued progress in the delivery of cost savings. Foreign exchange movements had a £5m positive impact on EBITDA. All 2008/09 adjusted and underlying earnings measures are stated before BT Global Services contract and financial review charges of £1,303m in Q4 2008/09.

In the quarter, total underlying operating costs and capital expenditure reduced by £175m, a reduction of 3%. This lower level of reduction than previous quarters is largely due to the expected higher level of capital expenditure in the fourth quarter.

Underlying group operating costs, excluding depreciation and leaver costs, reduced by 7%. Total labour costs, on an underlying basis, excluding leaver costs, decreased by 16%, reflecting reductions in direct and indirect labour and lower pension charges. Leaver costs were £18m (Q4 2008/09: £62m).

As expected, capital expenditure increased by £104m to £862m due to a higher level of activity on investment programmes in the fourth quarter, particularly our fibre roll out.

Depreciation and amortisation for the quarter was £788m, broadly flat year on year.

Net finance expense

Net finance expense before specific items was £299m, an increase of £148m, principally due to the notional non-cash pension net interest expense under IAS 19. Net finance expense before pension interest was broadly flat at £228m.

Specific items

Specific items are defined in Note 4. Specific items in the quarter were a net charge after tax of £132m (Q4 2008/09: net charge of £318m). Specific items comprise a charge of £121m in respect of our UK property portfolio rationalisation programme and BT Global Services restructuring charges of £52m (Q4 2008/09: £280m) as detailed on page 5. In addition, specific items include a £12m loss on the reduction of an indirect holding in our associate, Tech Mahindra. The tax credit on these charges was £36m. In addition, a further specific item tax credit of £15m was recognised in relation to the settlement of outstanding tax matters relating to prior years.

Earnings per share

Adjusted EPS increased by 73% to 5.2p. Reported EPS was 2.7p (Q4 2008/09: loss per share of 13.1p).

Cash flow

Free cash flow was an inflow of £1,045m, reflecting the usual seasonality in the quarter. Net cash inflow from our operating activities in the quarter was £1,934m (Q4 2008/09: £2,036m). Net cash outflow for the purchase of property, plant and equipment and software was £699m (Q4 2008/09: £701m).

The net cash outflow on acquisition of subsidiaries was £57m (Q4 2008/09: £11m), principally comprising a payment of deferred consideration relating to our acquisition of Albacom in a prior year.

OPERATING REVIEW
BT Global Services

	Fourth quarter to 31 March				Year to 31 March	
	2010	2009[1]	Change		**2010**	2009[1]
	£m	£m	£m	%	**£m**	£m
Revenue	**2,292**	2,345	(53)	(2)	**8,513**	8,628
Net operating costs [2]	**2,115**	2,313	(198)	(9)	**8,056**	8,302
EBITDA before contract & financial review charges	**177**	32	145	453	**457**	326
Contract and financial review charges	**-**	1,303	(1,303)	n/m	**-**	(1,639)
EBITDA	**177**	(1,271)	1,448	n/m	**457**	(1,313)
Depreciation & amortisation	**244**	241	3	1	**815**	776
Operating loss	**(67)**	(1,512)	(1,445)	n/m	**(358)**	(2,089)
Capital expenditure	**217**	220	(3)	(1)	**599**	886
Operating cash flow	**141**	279	(138)	(49)	**(443)**	(847)

[1] Restated for the impact of customer account moves and internal trading model changes
[2] Net of other operating income

Revenue
BT Global Services revenue decreased by 2% in the quarter and by 1% in the year. Excluding foreign exchange movements, underlying revenue was flat in the quarter and down 4% for the year. In the quarter, this underlying performance reflects the early delivery of around £100m of revenue primarily due to the delivery of significant contract milestones. The revenue decline reflects the impact of mobile termination rate reductions, lower wholesale call volumes in Continental Europe, declines in UK calls and lines revenue and the economic conditions.

Total order intake was £2.2bn, significantly up on the third quarter, leading to a full year order intake of £6.6bn. In the UK, contracts signed in the quarter included: an extension with the UK Department for Work and Pensions to provide voice, data and contact centre solutions; Wolverhampton City Council to provide Ethernet services; British Airways to provide contact centre services; and J Sainsbury to provide data and voice services. Around the world, new orders included: the Spanish Ministry of Foreign Affairs, to deliver the telecommunications infrastructure and services for Spain's diplomatic centres around the world; Deutsche Post DHL, to provide a managed services solution for its telecommunications infrastructure in 15 countries in Asia Pacific; and Commerzbank, one of Germany's biggest banks, for the management of local and wide area networks.

Operating results
We have made further progress with our cost saving initiatives delivering a reduction of 6% in underlying operating costs both in the fourth quarter and the year. Total labour resource reduced by 840 in the quarter and is now more than 5,900 lower than a year ago. We have also made continued progress in improved procurement and negotiations with major suppliers. Underlying cost reductions for the year reflect the impact of these labour and procurement savings as well as the simplification of processes, systems and networks.

As a result of reducing the cost base, adjusted EBITDA increased to £177m, compared with £123m in the third quarter and £32m in the fourth quarter of last year. Depreciation and amortisation increased by 1% to £244m. Overall this contributed to a reduced operating loss of £67m.

Capital expenditure reduced by only £3m in the quarter, but reduced by £287m in the year. The small reduction in the quarter was due to the timing of capital expenditure across certain of our large customer contracts, offsetting the benefit of our continued capital management activities seen throughout the year.

The operating cash outflow in the year was almost halved to £443m.

BT Retail

	Fourth quarter to 31 March				Year to 31 March	
	2010	2009[1]	Change		**2010**	2009[1]
	£m	£m	£m	%	**£m**	£m
Revenue	**2,064**	2,149	(85)	(4)	**8,297**	8,663
Net operating costs [2]	**1,594**	1,707	(113)	(7)	**6,412**	6,981
EBITDA	**470**	442	28	6	**1,885**	1,682
Depreciation & amortisation	**106**	111	(5)	(5)	**459**	426
Operating profit	**364**	331	33	10	**1,426**	1,256
Capital expenditure	**164**	117	47	40	**417**	471
Operating cash flow	**473**	383	90	23	**1,688**	1,090

[1] Restated for the impact of customer account moves and internal trading model changes
[2] Net of other operating income

Revenue

BT Retail revenue declined by 4% in the quarter and the year largely due to a continued reduction in our calls and lines revenue, driven by the challenging market conditions, particularly in the business market. Our Consumer and Business revenue was down 2% and 6%, respectively in the quarter, although this represented a reduced rate of decline compared with the previous quarter. The decline in Consumer revenue was reduced as the bad weather in January lead to increased call volumes, whereas the decline in Business calls and lines revenue was partially offset by a return to growth in ICT services revenue.

Annual consumer ARPU increased to £309, up £8 over the previous quarter, as take-up of multi product offers by our customers increased. In the maturing broadband market BT's retail market share of the DSL and LLU installed base remained at 35%. Net additions were 123,000 in the quarter, our highest in two years, and BT's retail market share was 44%, having now remained above 40% for five consecutive quarters.

In the quarter we launched BT Infinity, our new super-fast fibre-based broadband service with download speeds of up to 40 Mbps, with prices starting at less than £20 per month. Nearly one million customers are now enjoying faster speeds of up to 20Mbps, for no extra cost, through the upgrade to our ADSL2+ service. This, together with our significant investment in additional backhaul capacity, underpins our customer promise of consistently faster speeds with BT.

The BT Vision customer base grew to 467,000 at 31 March 2010 with the average number of subscription views per month per subscriber increasing by 37% over last year to 40.

Following a three year investigation, in March 2010 Ofcom concluded that Sky should provide wholesale access to Sky Sports 1 and 2 at regulated prices. We are confident that consumers will benefit from this decision, and we aim to bring these channels to the market in time for the new Premiership football season and at lower prices than are available currently.

Operating results

Overall net operating costs decreased by 7% in the quarter principally due to reductions in customer service costs, as we improve processes and reduce the level of complaints, and lower total labour costs. As a result of the cost savings, EBITDA increased by 6%. Depreciation and amortisation decreased by 5%. Overall this contributed to operating profit of £364m, an increase of 10%.

Operating cash flow for the year at £1,688m was £598m higher due to the increased EBITDA and improved working capital performance, principally driven by better cash receipts.

BT Wholesale

	Fourth quarter to 31 March				Year to 31 March	
	2010	2009[1]	Change		**2010**	2009[1]
	£m	£m	£m	%	**£m**	£m
Revenue	**1,091**	1,151	(60)	(5)	**4,450**	4,658
Net operating costs [2]	**776**	837	(61)	(7)	**3,166**	3,375
EBITDA	**315**	314	1	-	**1,284**	1,283
Depreciation & amortisation	**167**	166	1	1	**680**	686
Operating profit	**148**	148	-	-	**604**	597
Capital expenditure	**114**	97	17	18	**325**	435
Operating cash flow	**344**	362	(18)	(5)	**856**	835

[1] Restated for the impact of customer account moves and internal trading model changes
[2] Net of other operating income

Revenue
BT Wholesale revenue declined by 5% in the quarter and 4% in the year largely as a result of the impact of low margin transit revenue declines of £51m in the quarter and £156m for the year, primarily due to mobile termination rate reductions, which has no impact on EBITDA. Excluding transit revenue reductions, revenue in the quarter and the full year declined by 1% compared with last year. There were continued reductions in broadband, circuits and international direct dial revenues of £39m in the quarter and £188m in the year. These declines were partially offset by growth in managed network services (MNS) revenue to £188m, representing 24% of external revenue in the quarter (Q4 2008/09: 19%) and 22% for the year (2008/09: 15%). 42% of our external revenue is now underpinned by long term contracts, including MNS contracts.

During the quarter, we signed a further £300m of MNS contracts, including the extension of existing mobile Ethernet access agreements with both O_2 and Vodafone to build additional IP-based capacity into their networks. We also re-signed our white label managed services contract with Scottish and Southern Energy for a further three years. This has contributed to a total MNS contract value of £1.8bn being signed in the year, an increase of 45% on the prior year.

In April 2010, we signed a major MNS agreement with Orange UK to take on the management and development of its UK fixed line broadband infrastructure for consumers and SMEs. Over the next 15 months, we will migrate Orange UK's LLU-based customers to the BT Wholesale broadband platform.

Operating results
The decline in revenue was offset by a 7% reduction in net operating costs due to the combined impact of reductions in our total labour resource and lower mobile termination rates. As a result, EBITDA remained broadly flat. Depreciation and amortisation increased by 1% contributing to a flat operating profit of £148m.

Capital expenditure increased by £17m in the quarter. Operating cash flow for the year increased by £21m, despite being negatively impacted by intra group VAT settlement arrangements with Openreach, due to strong working capital management.

At 31 March 2010, Wholesale Broadband Connect (WBC), our next generation broadband service based on ADSL2+ technology, was within reach of 14m or 55% of UK premises. The new service now has in excess of 1.1m end users. Wholesale Ethernet is currently available from more than 800 nodes across the country, strengthening our market leading Ethernet footprint.

During 2010/11, we plan to increase the availability of WBC to bring it within reach of around 20m or 75% of UK premises and will continue to expand our Ethernet footprint.

Openreach

	Fourth quarter to 31 March				Year to 31 March	
	2010	2009	Change		**2010**	2009
	£m	£m	£m	%	**£m**	£m
External revenue	**317**	269	48	18	**1,211**	1,013
Revenue from other BT lines of business	**964**	1,024	(60)	(6)	**3,953**	4,218
Revenue	**1,281**	1,293	(12)	(1)	**5,164**	5,231
Net operating costs[1]	**788**	781	7	1	**3,148**	3,206
EBITDA	**493**	512	(19)	(4)	**2,016**	2,025
Depreciation & amortisation	**217**	216	1	**-**	**856**	778
Operating profit	**276**	296	(20)	(7)	**1,160**	1,247
Capital expenditure	**278**	248	30	12	**907**	951
Operating cash flow	**354**	294	60	20	**1,231**	1,113

[1] Net of other operating income

Revenue
The continued growth of end-customers using other CP's WLR and LLU products contributed to an 18% increase in external revenue and a 6% reduction in revenue from other BT lines of business. Overall, total revenue declined by 1% in the quarter and year, following a reduction in Ethernet rental prices from January 2010 and continued migration from WLR to lower priced MPF, partially offset by Ethernet volume growth.

Operating results
Net operating costs increased by 1% in the quarter partially due to the prior year benefiting from a full year's business rates rebate and additional costs in the current year related to the rapid expansion of Ethernet and fibre services. As a result, EBITDA declined by 4%. Depreciation and amortisation was broadly flat and therefore operating profit decreased by 7%.

Capital expenditure increased by 12% in the quarter due to the increased investment in our fibre roll out more than offsetting the underlying capital expenditure reductions.

We aim to make our fibre services available to 4m UK premises by the end of 2010 and to be available to at least 40% of UK premises in 2012.

Operating cash flow increased by £118m in the year, being positively impacted by intra group VAT settlement arrangements with BT Wholesale. Excluding this, operating cash flow still improved due to lower capital expenditure and improved working capital.

FINANCIAL STATEMENTS

Group income statement
For the fourth quarter to 31 March 2010

	Notes	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	5,356	-	**5,356**
Other operating income		126	2	**128**
Operating costs	3	(4,758)	(173)	**(4,931)**
Operating profit		724	(171)	**553**
Finance expense		(786)	-	**(786)**
Finance income		487	-	**487**
Net finance expense	5	(299)	-	**(299)**
Share of post tax profits of associates and joint ventures		9	-	**9**
Loss on disposal of associate		-	(12)	**(12)**
Profit before tax		434	(183)	**251**
Tax		(93)	51	**(42)**
Profit for the period		341	(132)	**209**
Attributable to:				
Equity shareholders		340	(132)	**208**
Minority interests		1	-	**1**
Earnings per share	11			
- basic		4.4p		**2.7p**
- diluted		4.2p		**2.6p**

Group income statement
For the fourth quarter to 31 March 2009

	Notes	Before specific items[1] £m	Specific items (Note 4) £m	Total[1] £m
Revenue	2	5,473	-	**5,473**
Other operating income		84	(13)	**71**
Operating costs	3	(6,396)	(330)	**(6,726)**
Operating loss		(839)	(343)	**(1,182)**
Finance expense		(812)	-	**(812)**
Finance income		661	-	**661**
Net finance expense	5	(151)	-	**(151)**
Share of post tax profits of associates and joint ventures		17	-	**17**
Loss before tax		(973)	(343)	**(1,316)**
Tax		278	25	**303**
Loss for the period		(695)	(318)	**(1,013)**
Attributable to:				
Equity shareholders		(696)	(318)	**(1,014)**
Minority interests		1	-	**1**
Loss per share	11			
- basic		(9.0)p		**(13.1)p**
- diluted		(9.0)p		**(13.0)p**

[1]Restated, see Note 1

Group income statement
For the year to 31 March 2010

	Notes	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	20,911	(52)	**20,859**
Other operating income		378	2	**380**
Operating costs	3	(18,689)	(427)	**(19,116)**
Operating profit		2,600	(477)	**2,123**
Finance expense		(3,113)	-	**(3,113)**
Finance income		1,944	11	**1,955**
Net finance expense	5	(1,169)	11	**(1,158)**
Loss on disposal of associate		-	(12)	**(12)**
Share of post tax profits of associates and joint ventures		25	29	**54**
Profit before tax		1,456	(449)	**1,007**
Tax		(320)	342	**22**
Profit for the year		1,136	(107)	**1,029**
Attributable to:				
Equity shareholders		1,135	(107)	**1,028**
Minority interests		1	-	**1**
Earnings per share	11			
- basic		14.7p		**13.3p**
- diluted		14.2p		**12.9p**

Group income statement
For the year to 31 March 2009

	Notes	Before specific items[1] £m	Specific items (Note 4) £m	Total[1] £m
Revenue	2	21,390	-	**21,390**
Other operating income		352	(13)	**339**
Operating costs	3	(21,033)	(395)	**(21,428)**
Operating profit		709	(408)	**301**
Finance expense		(3,272)	-	**(3,272)**
Finance income		2,652	-	**2,652**
Net finance expense	5	(620)	-	**(620)**
Share of post tax profits of associates and joint ventures		39	36	**75**
Profit (loss) before tax		128	(372)	**(244)**
Tax		10	43	**53**
Profit (loss) for the year		138	(329)	**(191)**
Attributable to:				
Equity shareholders		136	(329)	**(193)**
Minority interests		2	-	**2**
Earnings (loss) per share	11			
- basic		1.8p		**(2.5)p**
- diluted		1.8p		**(2.5)p**

[1]Restated, see Note 1

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

	Fourth quarter to 31 March		Year to 31 March	
	2010	2009[1]	**2010**	2009[1]
	£m	£m	**£m**	£m
Profit (loss) for the period	**209**	(1,013)	**1,029**	(191)
Other comprehensive income (loss)				
Actuarial movements on defined benefit pension schemes	**949**	(1,648)	**(4,324)**	(7,037)
Exchange gains (losses) on translation of foreign operations	**112**	(76)	**(119)**	692
Fair value movements on cash flow hedges				
- fair value gains (losses)	**292**	(286)	**(1,067)**	2,719
- recycled and reported in net profit	**(307)**	205	**496**	(2,144)
- reclassified and reported in non current assets	**(4)**	(5)	**(4)**	(5)
Movement in assets available for sale reserve	**3**	2	**7**	5
Tax on components of other comprehensive income	**(155)**	608	**1,350**	1,859
Other comprehensive income (loss) for the period, net of tax	**890**	(1,200)	**(3,661)**	(3,911)
Total comprehensive income (loss) for the period	**1,099**	(2,213)	**(2,632)**	(4,102)
Attributable to:				
Equity shareholders	**1,098**	(2,214)	**(2,633)**	(4,113)
Minority interests	**1**	1	**1**	11
	1,099	(2,213)	**(2,632)**	(4,102)

[1]Restated, see Note 1

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

	Share capital	**Reserves (deficit)**	**Minority interests**	**Total equity**
	£m	**£m**	**£m**	**£m**
At 1 April 2008	420	4,989	23	5,432
Total comprehensive loss for the year	-	(4,113)	11	(4,102)
Share-based payments	-	143	-	143
Tax on share-based payments	-	(12)	-	(12)
Net movement on treasury shares	-	(63)	-	(63)
Dividends to shareholders	-	(1,222)	-	(1,222)
Cancellation of shares	(12)	12	-	-
Other movements in minority interests	-	-	(7)	(7)
At 31 March 2009	**408**	**(266)**	**27**	**169**
Total comprehensive loss for the year	-	(2,633)	1	(2,632)
Share-based payments	-	81	-	81
Tax on share-based payments	-	19	-	19
Net movement on treasury shares	-	4	-	4
Dividends to shareholders	-	(263)	-	(263)
Other movements in minority interests	-	-	(4)	(4)
At 31 March 2010	**408**	**(3,058)**	**24**	**(2,626)**

Group cash flow statement
For the fourth quarter and year to 31 March

	Fourth quarter to 31 March		Year to 31 March	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Profit (loss) before tax	**251**	(1,316)	**1,007**	(244)
Depreciation and amortisation	**788**	791	**3,039**	2,890
Net finance expense	**299**	151	**1,158**	620
Loss on disposal of non-current assets and investments	**10**	13	**10**	13
Share of (profit) losses of associates and joint ventures	**(9)**	(17)	**(54)**	(75)
Share-based payments	**17**	35	**71**	141
Decrease (increase) in working capital	**484**	1,695	**(170)**	695
Provisions, pensions and other non cash movements	**112**	799	**(585)** [1]	894
Cash generated from operations	**1,952**	2,151	**4,476**	4,934
Tax (paid) received	**(18)**	(115)	**349**	(228)
Net cash inflow from operating activities	**1,934**	2,036	**4,825**	4,706
Cash flow from investing activities				
Interest received	**1**	1	**16**	19
Dividends received from associates and joint ventures	**-**	1	**3**	6
Proceeds on disposal of property, plant and equipment	**2**	16	**29**	44
Proceeds on sale of business	**2**	-	**2**	-
Acquisition of subsidiaries, net of cash acquired	**(57)**	(11)	**(70)**	(227)
Purchases of property, plant and equipment and computer software	**(701)**	(717)	**(2,509)**	(3,082)
Purchases of current financial assets	**(2,245)**	(2,257)	**(8,985)**	(6,030)
Sales of current financial assets	**2,574**	2,925	**8,739**	6,316
Net cash used in investing activities	**(424)**	(42)	**(2,775)**	(2,954)
Cash flow from financing activities				
Interest paid	**(191)**	(203)	**(956)**	(956)
Equity dividends paid	**(178)**	(415)	**(265)**	(1,221)
Dividends paid to minority interests	**-**	-	**-**	(1)
Repayments of borrowings	**-**	(169)	**(307)**	(863)
Repayment of finance lease liabilities	**(10)**	(7)	**(24)**	(16)
New bank loans and bonds	**9**	-	**531**	795
Net (repayment) proceeds on commercial paper	**-**	(672)	**(697)**	606
Repurchase of ordinary shares	**-**	-	**-**	(334)
Proceeds on issue of treasury shares	**3**	-	**4**	125
Net cash used in financing activities	**(367)**	(1,466)	**(1,714)**	(1,865)
Effects of exchange rate changes	**9**	(13)	**(7)**	54
Net increase (decrease) in cash and cash equivalents	**1,152**	515	**329**	(59)
Cash and cash equivalents at beginning of period	**292**	600	**1,115**	1,174
Cash and cash equivalents, net of bank overdrafts, at end of period	**1,444**	1,115	**1,444**	1,115
Free cash flow (Note 7)	**1,045**	1,134	**1,933**	737

[1] Includes pension deficit payment of £nil in Q4 2009/10 (Q4 2008/09: £nil) and £525m in FY 2009/10 (FY 2008/09: £nil)

Group balance sheet

	31 March 2010	31 M
	£m	£m
Non current assets		
Intangible assets	**3,672**	3,788
Property, plant and equipment	**14,856**	15,405
Derivative financial instruments	**1,076**	2,542
Investments	**64**	55
Associates and joint ventures	**195**	132
Trade and other receivables	**336**	322
Deferred tax assets	**2,196**	1,103
	22,395	23,347
Current assets		
Inventories	**107**	121
Trade and other receivables	**3,696**	4,185
Derivative financial instruments	**624**	158
Investments	**406**	163
Cash and cash equivalents	**1,452**	1,300
	6,285	5,927
Total assets	**28,680**	29,274
Current liabilities		
Loans and other borrowings	**3,269**	1,542
Derivative financial instruments	**166**	56
Trade and other payables	**6,531**	7,215
Current tax liabilities	**320**	1
Provisions	**134**	254
	10,420	9,068
Total assets less current liabilities	**18,260**	20,206
Non current liabilities		
Loans and other borrowings	**9,522**	12,365
Derivative financial instruments	**533**	711
Other payables	**804**	794
Deferred tax liabilities	**1,456**	1,728
Retirement benefit obligations	**7,864**	3,973
Provisions	**707**	466
	20,886	20,037
Capital and reserves		
Called up share capital	**408**	408
Deficit	**(3,058)**	(266)
Total equity shareholders' (deficit) funds	**(2,650)**	142
Minority interests	**24**	27
Total (deficit) equity	**(2,626)**	169
	18,260	20,206

[1]Restated, see Note 1

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

The final results for the year to 31 March 2010 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 26 May 2010. The financial statements for the fourth quarter to 31 March 2010 are unaudited.

The financial information set out above does not constitute the company's statutory accounts for the years to 31 March 2010 or 2009 but is derived from those accounts. Statutory accounts for the year to 31 March 2009 were approved by the Board of Directors on 13 May 2009, published on 27 May 2009 and delivered to the Registrar of Companies, and those for 2009/10 are expected to be published on 26 May 2010. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985 in respect of the accounts for the year to 31 March to 2009 nor a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for the year to 31 March 2010.

Restatements – impact of new accounting standards

The amendment to IFRS 2, *Share-based payment – Vesting Conditions and Cancellations*, which was adopted with effect from 1 April 2009, requires retrospective adoption and hence comparative periods have been restated. This has resulted in a reduction in EBITDA of £37m for Q4 2008/09 and £110m for FY 2008/09. The restatements have been included in the 'Other' segment. The adoption of IAS 1 (revised), *Presentation of Financial Statements* has resulted in a change in accounting policy applied to the classification of derivatives which have not been allocated to a specific hedge relationship. Where such derivatives, previously reported as current assets and current liabilities, have a maturity of and are expected to be held for more than twelve months after the reporting period, they will now be presented as non-current assets or liabilities. Prior period balance sheets have been reclassified to be on a consistent basis. The effect of these adjustments was disclosed in Note 14 to the financial statements for the first quarter to 30 June 2009.

Restatements – internal charges

We have also restated the line of business 2008/09 income statement comparatives for the impact of customer account moves between BT Global Services and BT Retail and other internal trading model changes effective from 1 April 2009. These restatements have no impact on total group results. The effect of these restatements was disclosed in Note 14 to the financial statements for the first quarter to 30 June 2009.

2 Operating results – by line of business

	External re' £m	Internal revenue £m	Group revenue [4] £m	EBITDA[2] £m	Group operating profit (loss) [2] £m
Fourth quarter to 31 March 2010					
BT Global Services	**2,292**	-	**2,292**	**177**	**(67)**
BT Retail	**1,953**	**111**	**2,064**	**470**	**364**
BT Wholesale	**784**	**307**	**1,091**	**315**	**148**
Openreach	**317**	**964**	**1,281**	**493**	**276**
Other	**10**	-	**10**	**75**	**21**
Intra-group items [3]	-	**(1,382)**	**(1,382)**	-	-
Total	**5,356**	**-**	**5,356**	**1,530**	**742**
Fourth quarter to 31 March 2009[4]					
BT Global Services	2,345	-	2,345	32	(209)
BT Retail	2,044	105	2,149	442	331
BT Wholesale	845	306	1,151	314	148
Openreach	269	1,024	1,293	512	296
Other	11	-	11	17	(40)
Intra-group items [3]	-	(1,435)	(1,435)	-	-
Total	5,514	-	5,514	1,317	526
Year to 31 March 2010					
BT Global Services	**8,513**	**-**	**8,513**	**457**	**(358)**
BT Retail	**7,924**	**373**	**8,297**	**1,885**	**1,426**
BT Wholesale	**3,223**	**1,227**	**4,450**	**1,284**	**604**
Openreach	**1,211**	**3,953**	**5,164**	**2,016**	**1,160**
Other	**40**	**-**	**40**	**139**	**(90)**
Intra-group items [3]	-	**(5,553)**	**(5,553)**	-	-
Total	**20,911**	**-**	**20,911**	**5,781**	**2,742**
Year to 31 March 2009[4]					
BT Global Services	8,628	-	8,628	326	(450)
BT Retail	8,320	343	8,663	1,682	1,256
BT Wholesale	3,430	1,228	4,658	1,283	597
Openreach	1,013	4,218	5,231	2,025	1,247
Other	40	-	40	126	(98)
Intra-group items [3]	-	(5,789)	(5,789)	-	-
Total	21,431	-	21,431	5,442	2,552

[1] Before specific items. Also before BT Global Services contract and financial review charges of £41m in Q4 2008/09 (FY 2008/09: £41m)
[2] Before specific items and leaver costs. Also before BT Global Services contract and financial review charges of £1,303m in Q4 2008/09 (FY 2008/09: £1,639m)
[3] Elimination of intra-group revenue, which is included in the total revenue of the originating business
[4] Restated – see Note 1 for details

3 Operating costs

	Fourth quarter to 31 March		Year to 31 March	
	2010	2009[1]	**2010**	2009[1]
	£m	£m	**£m**	£m
Staff costs before leaver costs	**1,176**	1,330	**4,862**	5,412
Leaver costs	**18**	62	**142**	204
Staff costs	**1,194**	1,392	**5,004**	5,616
Own work capitalised	**(155)**	(168)	**(575)**	(673)
Net staff costs	**1,039**	1,224	**4,429**	4,943
Depreciation and amortisation	**788**	791	**3,039**	2,890
Payments to telecommunication operators	**929**	1,092	**4,083**	4,266
Other operating costs [2]	**2,002**	3,289	**7,138**	8,934
Total before specific items	**4,758**	6,396	**18,689**	21,033
Specific items (Note 4)	**173**	330	**427**	395
Total	**4,931**	6,726	**19,116**	21,428

[1] Restated – see Note 1 for details
[2] Includes BT Global Services contract and financial review charges of £nil in 2009/10 (Q4 2008/09: £1,262m, FY 2008/09: £1,598m).

4 Specific items

The group 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 it 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	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Regulatory settlement - revenue	**-**	-	**52**	-
(Profit) loss on disposal of businesses	**(2)**	13	**(2)**	13
BT Global Services restructuring charges:				
-Network, products and procurement channels rationalisation	**11**	183	**142**	183
-People and property costs	**20**	51	**132**	51
-Intangible asset and other asset impairments	**21**	46	**27**	46
	52	280	**301**	280
21CN asset impairment and related charges	**-**	50	**-**	50
Group transformation and reorganisation costs	**-**	-	**-**	65
Property rationalisation charges	**121**	-	**121**	-
Costs associated with settlement of prior tax years	**-**	-	**5**	-
Specific operating costs	**173**	330	**427**	395
Interest on settlement of open tax years	**-**	-	**(11)**	-
Reassessment of carrying value of associate	**-**	-	**-**	(36)
Loss on disposal of associate	**12**	-	**12**	-
Impact of renegotiated supply contracts on associate	**-**	-	**(29)**	-
Net specific items before tax	**183**	343	**449**	372
Tax credit on specific items	**(36)**	(25)	**(112)**	(43)
Tax credit in respect of settlement of open tax years	**(15)**	-	**(230)**	-
Net specific items charge after tax	**132**	318	**107**	329

5 Net finance expense

	Fourth quarter to 31 March		Year to 31 March	
	2010[1]	2009	**2010**[1]	2009
	£m	£m	**£m**	£m
Net finance expense before pensions[2]	**228**	229	**879**	933
Net interest expense (income) on pensions	**71**	(78)	**279**	(313)
Net finance expense	**299**	151	**1,158**	620

[1] Finance expense in Q4 2009/10 and FY 2009/10 includes a £12m and £19m net charge (Q4 2008/09: £nil, FY 2008/09: £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

[2] Includes £11m of interest income on settlement of prior tax years in FY 2009/10 which has been disclosed as a specific item (Note 4)

6 Dividends

The Board are recommending a final dividend of 4.6 per share (FY 2008/09: 1.1p). This will be paid, subject to shareholder approval, on 6 September 2010 to shareholders who were on the register at 13 August 2010. The ex-dividend date is 11 August 2010. This final dividend, amounting to approximately £356m (FY 2008/09: £85m) has not been included as a liability as at 31 March 2010. It will be recognised as an appropriation of retained earnings within shareholders' equity in the quarter to 30 September 2010. This takes the total proposed dividend for the year to 6.9p per share (FY 2008/09: 6.5p per share).

7 Free cash flow

Free cash flow is not a measure recognised under IFRS but is a key indicator used by management in order to assess operational performance.

	Fourth quarter to 31 March		Year to 31 March	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Cash generated from operations	**1,952**	2,151	**4,476**	4,934
Tax (paid) received	**(18)**	(115)	**349**	(228)
Net cash inflow from operating activities	**1,934**	2,036	**4,825**	4,706
Add back: pension deficit payment	**-**	-	**525**	-
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	**(699)**	(701)	**(2,480)**	(3,038)
Dividends received from associates	-	1	**3**	6
Interest received	**1**	1	**16**	19
Included in cash flows from financing activities				
Interest paid	**(191)**	(203)	**(956)**	(956)
Free cash flow	**1,045**	1,134	**1,933**	737

8 Net debt

Net debt is a non GAAP measure since it is not defined in accordance with IFRS, but it is a key indicator used by management in order to assess operational performance.

	At 31 March	
	2010	2009
	£m	£m
Loans and other borrowings (current and non current)[1]	**12,791**	13,907
Cash and cash equivalents	**(1,452)**	(1,300)
Current asset investments	**(406)**	(163)
	10,933	12,444
Adjustments:		
To re-translate currency denominated balances at swapped rates where hedged	**(1,326)**	(1,766)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	**(324)**	(317)
Net debt	**9,283**	10,361

[1] Includes overdrafts of £8m at 31 March 2010 (31 March 2009: £185m)

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

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. A reconciliation of reported profit before tax to adjusted EBITDA is provided below.

	Fourth quarter to 31 March		Year to 31 March	
	2010	2009	**2010**	2009
	£m	£m	**£m**	£m
Profit (loss) before tax	**251**	(1,316)	**1,007**	(244)
Share of profits of associates and joint ventures	**(9)**	(17)	**(54)**	(75)
Loss on disposal of associate	**12**	-	**12**	-
Net finance expense	**299**	151	**1,158**	620
Operating profit (loss)	**553**	(1,182)	**2,123**	301
Depreciation and amortisation (Note 3)	**788**	791	**3,039**	2,890
EBITDA	**1,341**	(391)	**5,162**	3,191
Add back:				
Leaver costs (Note 3)	**18**	62	**142**	204
Specific items (Note 4)	**171**	343	**477**	408
BT Global Services contract and financial review charges	**-**	1,303	**-**	1,639
Adjusted EBITDA	**1,530**	1,317	**5,781**	5,442

10 Reconciliation of adjusted profit before tax

	Fourth quarter to 31 March		Year to 31 March	
	2010	2009[1]	**2010**	2009[1]
	£m	£m	**£m**	£m
Reported profit (loss) before tax	**251**	(1,316)	**1,007**	(244)
Add back:				
Leaver costs (Note 3)	**18**	62	**142**	204
Specific items (Note 4)	**183**	343	**449**	372
BT Global Services contract and financial review charges	**-**	1,303	**-**	1,639
Net interest expense (income) on pensions (Note 5)	**71**	(78)	**279**	(313)
Adjusted profit before tax	**523**	314	**1,877**	1,658

[1] Restated – see note 1 for details

11 Reconciliation of adjusted earnings per share

	Fourth quarter to 31 March		Year to 31 March	
	2010	2009[1]	**2010**	2009[1]
	pence per share		pence per share	
Reported basic earnings (loss) per share	**2.7**	(13.1)	**13.3**	(2.5)
Add back:				
Per share impact of:				
- Leaver costs	**0.2**	0.6	**1.3**	1.9
- Specific items	**1.7**	4.1	**1.4**	4.3
- BT Global Services contract and financial review charges	-	12.1	-	15.3
- Net interest expense (income) on pensions	**0.6**	(0.7)	**2.6**	(3.0)
Adjusted earnings per share	**5.2**	3.0	**18.6**	16.0

[1] Restated – see Note 1 for details

12 Principal risks and uncertainties (extracted from the BT Group plc Annual Report & Form 20-F 2010)

In common with all businesses, BT is affected by a number of risks and uncertainties, not all of which are wholly within our control. Although many of the risks and uncertainties influencing our performance are macroeconomic and likely to affect the performance of businesses generally, others are particular to our operations.

This section highlights some of those particular risks and uncertainties affecting our business but it is not intended to be an extensive analysis of all risk and uncertainty affecting our business. Some may be unknown to us and others, currently regarded as immaterial, could turn out to be material. All of them have the potential to impact our business, revenue, profits, assets, liquidity and capital resources adversely.

We have a defined enterprise wide risk management process for identifying, evaluating and managing the significant risks faced by the group. The key features of the risk management process are provided in the Statement on Internal control and risk management in the BT Group plc Annual Report & Form 20-F 2010, which is expected to be published on 26 May 2010. The group risk register captures the most significant risks facing the business. Each risk is assigned a senior management owner responsible for monitoring and evaluating the risk and the mitigation strategies. The group risk register has been reviewed by the Operating Committee before being reviewed and approved by the Board. The principal risks below are all identified on the group risk register.

The principal risks and uncertainties should be considered in conjunction with the forward looking statements for this document and the cautionary statement regarding forward looking statements on page 26.

Competitive activity

We operate in markets which are characterised by high levels of competition. While there are many factors which contribute to the high level of competition the prominent factors include regulatory intervention which is focused on promoting competition, technology substitution, market and service convergence, customer churn, declining levels of market differentiation, declining market growth rates and the emergence of competitors with distinctive and non-replicable sources of competitive advantage.

BT faces a number of challenges in relation to growing revenues. A distinct challenge is that our UK voice and connectivity business is a mature business subject to price deflation and declining or negative market growth rates leading to declining revenues, margins and cashflow. The net effect is that we increasingly have to look beyond the UK voice and connectivity market to secure profitable revenue growth from adjacent markets, both inside and outside the UK. This in turn is dependent on developing strong and advantaged competitive positions in attractive product and service markets. As well as looking beyond the UK and voice and connectivity market we also need to deliver major new investments (eg. super-fast broadband) which will not only help us defend existing revenues but also open up new adjacent markets for us to penetrate. These new areas of growth carry associated risks including high investment in development and launch and might not yield the necessary returns or offset declining revenues in our traditional business.

Global economic and credit market conditions

Whilst there have been improvements in the UK and global economies during 2009/10, the level of business activity could be impacted by continued economic uncertainty and could lead to a reduction in revenue, profitability and cash generation. In common with many other businesses, our financial performance could also be impacted by increased exposure to the default of customers and suppliers if economic conditions do not continue to improve. In achieving our goals, we are dependent on a number of its partners, contractors and suppliers and therefore are at risk of loss of revenue, increased cost, delays and possibly associated penalties in the event of their failure.

However, unfavourable economic conditions may arise which could impact our ability to generate sufficient cash flow or access capital markets to enable us to service or repay our indebtedness or to fund our other liquidity requirements. We may be required to refinance all or a portion of our indebtedness on or before maturity, reduce or delay capital expenditure or seek additional capital. Refinancing or raising additional financing may not be available on commercially reasonable terms or at all. Our inability to continually generate sufficient cash flow to satisfy our debt service obligations, or to refinance debt on commercially reasonable terms, may adversely affect our business, financial condition, results of operations and prospects.

Regulatory controls

Some of our activities continue to be subjected to significant price and other regulatory controls which may affect our market share, competitive position and future profitability.

Many of our wholesale fixed network activities in the UK are subject to significant regulatory controls which are reviewed periodically. The controls regulate, among other things, the prices we may charge for many of our services and the extent to which we have to provide services to other communications providers. In recent years the effect of these controls has required us to reduce our prices, although in some recent cases, prices have been allowed to increase in real terms. We cannot provide assurance to our shareholders that the regulatory authorities will not increase the severity of the price controls, extend the services to which controls apply or extend the services which we have to provide to other communications providers. These controls may adversely affect our market share, our ability to compete and our future profitability.

Wholesale customers may also raise disputes with Ofcom, seeking lower prices on wholesale services which are not subject to direct price control.

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

In 2008/09, a failure to achieve anticipated cost savings made a number of our major contracts less profitable or even loss making, adversely impacting our profits. Contract and financial reviews were undertaken in BT Global Services, and resulted in our taking a more cautious view of the recognition of expected and future cost efficiencies, revenues and other changes in underlying assumptions and estimates, particularly in light of the economic outlook, resulting in contract and financial review charges of £1.6bn being recognised.

During 2009/10, we have taken actions and implemented a number of improvements to significantly enhance contract management, risk management and performance. Independent review teams provide additional assurance on our most significant contracts. Whilst progress has been made, and no significant charges in relation to major contracts were incurred in 2009/10, there is still a risk that further contract charges could arise in the future due to the impact of any of the factors identified above.

The degree of risk increases generally in proportion to the scope and life of the contract and is typically higher in the early stages. Some customer contracts require significant investment in the early stages, which is expected to be recovered over the life of the contract. Major contracts often involve the implementation of new systems and communications networks, transformation of legacy networks and the development of new technologies. The recoverability of these capital costs may be adversely impacted by delays or failure to meet milestones. Substantial performance risk exists in these contracts, and some or all elements of performance depend upon successful completion of the transition, development, transformation and deployment phases. Failure to manage and meet our commitments under these contracts, as well as changes in customers' requirements, budgets, strategies or businesses, during the contract term, may lead to a reduction in our expected and future revenue, profitability and cash generation. We may lose significant customers due to merger or acquisition, change of customer strategy, business failure or contract expiry. Failure to replace the revenue and earnings from lost customers could reduce revenue and profitability.

Security and resilience
BT is critically dependant on the secure operation and resilience of its information systems, networks and data. Any significant failure or interruption of such data transfer as a result of factors outside our control could have a material adverse effect on the business and our results from operations. We have a corporate resilience strategy and business continuity plans in place, designed to deal with such catastrophic events including, for example, major terrorist action, industrial action, cyber-attacks or natural disasters. A failure to deliver that strategy may lead to a reduction in our profitability and there can be no assurance that material adverse events will not occur.

The scale of our business and global nature of our operations means we are required to manage significant volumes of personal and commercially sensitive information. BT stores and transmits data for its own purposes and on behalf of customers, all of which needs to be safeguarded from potential exposure, loss or corruption, and therefore receives a high level of management attention and security measures. Any material failure could significantly damage our reputation and could lead to a loss of revenues, cancellation of contracts, penalties and additional costs being incurred.

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

The triennial funding valuation of the BTPS at 31 December 2008 and associated recovery plan has been agreed with the Trustee. Under this prudent funding valuation basis the deficit is £9bn. BT and the Trustee have agreed a 17 year recovery plan with the first three years' payments being £525m. The payment in 2012/13 will be £583m, then increasing by 3% per annum.

Whilst the valuation and the recovery plan have been agreed with the Trustee, they are currently under review by the Pensions Regulator. However, the Pensions Regulator’s initial view is that they have substantial concerns with certain features of the agreement. The Pensions Regulator has indicated it will discuss its position with us once they have completed their review. Accordingly, as matters stand, it is uncertain as to whether the Pensions Regulator will take any further action. This uncertainty is outside of our control.

The results of future scheme valuations and associated funding requirements will be impacted by the future performance of investment markets, interest and inflation rates and the general trend towards longer life expectancy, as well as regulatory changes, all of which are outside our control.

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: future financial outlook, and investment plans; revenue; operating cost savings; EBITDA; free cash flow; net debt; opportunities in BT Global Services, and improvements in its operating cash flow; progressive dividends; capital expenditure; investment in new consumer propositions and expansion in the Asia Pacific region; enhancing our TV offering; investment in and roll out of fibre; the pensions operating charge; and liquidity and funding.

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

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