Financial Results

12 May 2011

BT GROUP PLC
RESULTS FOR THE FOURTH QUARTER AND YEAR TO 31 MARCH 2011

BT Group plc (BT.L) today announces its results for the fourth quarter and year to 31 March 2011.

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

"We have delivered profits and free cash flow ahead of expectations for the year, while making significant investment in the business for the future. Free cash flow has nearly trebled compared with two years ago.

"We have consolidated our position as the leading provider of broadband in the UK with our highest quarterly share of DSL broadband net additions for eight years. BT Global Services order intake was up 10% at £7.3bn and it has turned cash flow positive a year ahead of plan. Openreach saw growth in its copper line base in the year, reversing historic trends. Our roll out of super-fast broadband is one of the most rapid in the world, passing an average of 80,000 additional premises each week and we have plans to roughly double the speed of our fibre-to-the-cabinet based service in 2012.

"We expect to continue to grow our profits and free cash flow whilst investing to return BT to growth. These results show we are making progress, but we are well aware there remains a lot more to do."

Fourth quarter and full year results:

		Fourth quarter to 31 March 2011		Year to 31 March 2011	
		£m	Change	**£m**	Change
Revenue[1]		**5,055**	(6)%	**20,076**	(4)%
EBITDA[1]		**1,551**	3%	**5,886**	4%
Profit before tax	**- adjusted**[1]	**610**	21%	**2,083**	20%
	- reported	**495**	97%	**1,717**	71%
Earnings per share	**- adjusted**[1]	**6.2p**	22%	**21.0p**	21%
	- reported	**6.1p**	126%	**19.4p**	46%
Free cash flow[1, 2]		**619**	(43)%	**2,223**	6%
Net debt				**8,816**	£(467)m
Full year proposed dividend				**7.4p**	7%

Key points:
- Full year results in line with or ahead of our outlook for the year
- Revenue of £20bn in line with our outlook, underlying revenue excluding transit down 3% in the year
- Operating cost savings of £1.1bn in the year, ahead of our outlook of around £900m
- Net debt reduced to £8.8bn, in line with our outlook, after pension deficit payments of £1.0bn in the year
- Free cash flow[1,2] of £2.2bn, ahead of our outlook and nearly trebled from two years ago
- Proposed final dividend of 5.0p, up 9%, giving a full year dividend of 7.4p, up 7%
- BT Global Services operating cash flow positive a year ahead of plan at £119m
- IAS 19 pension deficit of £1.4bn (net of tax), down £4.3bn in the year
- DSL broadband net additions of 252,000 in the quarter, of which BT's retail market share was 64%

Outlook:
We expect
- Underlying revenue excluding transit to be in the range of down 2% to flat in 2012 and to grow by up to 2% in 2013
- Adjusted EBITDA to grow in 2012 and to be above £6.0bn in 2013
- Adjusted free cash flow to be above 2011 level in both 2012 and 2013

[1] Before specific items
[2] Before pension deficit payments
Unless otherwise stated, the changes in results are year on year against the fourth quarter or year to 31 March 2010. The references 2010, 2011, 2012 and 2013 are the financial years to 31 March 2010, 2011, 2012 and 2013, respectively, except in relation to our fibre roll out plans which are based on calendar years.

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RESULTS FOR THE FOURTH QUARTER AND YEAR TO 31 MARCH 2011

Group results

	Fourth quarter to 31 March			Year to 31 March		
	2011	2010	Change	**2011**	2010	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- adjusted[1]	**5,055**	5,356	(6)	**20,076**	20,911	(4)
- reported	**5,055**	5,356	(6)	**20,076**	20,859	(4)
EBITDA						
- adjusted[1]	**1,551**	1,512	3	**5,886**	5,639	4
- reported	**1,449**	1,341	8	**5,557**	5,162	8
Operating profit						
- adjusted[1]	**789**	724	9	**2,907**	2,600	12
- reported	**687**	553	24	**2,578**	2,123	21
Profit before tax						
- adjusted[1]	**610**	505	21	**2,083**	1,735	20
- reported	**495**	251	97	**1,717**	1,007	71
Earnings per share						
- adjusted[1]	**6.2p**	5.1p	22	**21.0p**	17.3p	21
- reported	**6.1p**	2.7p	126	**19.4p**	13.3p	46
Full year proposed dividend				**7.4p**	6.9p	7
Capital expenditure	**779**	862	(10)	**2,590**	2,533	2
Free cash flow[2]						
- adjusted[1]	**619**	1,089	(43)	**2,223**	2,106	6
- reported	**546**	1,045	(48)	**2,011**	1,933	4
Net debt				**8,816**	9,283	(5)

Line of business results

	Revenue			Adjusted EBITDA[1]			Operating cash flow		
	2011	2010[3]	Change	**2011**	2010[4]	Change	**2011**	2010	Change
Fourth quarter to 31 March	**£m**	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**2,075**	2,292	(9)	**184**	177	4	**70**	113	(38)
BT Retail	**1,927**	2,017	(4)	**476**	438	9	**432**	437	(1)
BT Wholesale	**1,027**	1,078	(5)	**321**	334	(4)	**331**	360	(8)
Openreach	**1,255**	1,230	2	**539**	490	10	**282**	337	(16)
Other and intra-group items	**(1,229)**	(1,261)	3	**31**	73	(58)	**(496)**	(158)	n/m
Total	**5,055**	5,356	(6)	**1,551**	1,512	3	**619**	1,089	(43)

	Revenue			Adjusted EBITDA[1]			Operating cash flow		
	2011	2010[3]	Change	**2011**	2010[4]	Change	**2011**	2010	Change
Year to 31 March	**£m**	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**8,047**	8,513	(5)	**593**	457	30	**119**	(482)	n/m
BT Retail	**7,748**	8,124	(5)	**1,784**	1,777	-	**1,382**	1,566	(12)
BT Wholesale	**4,210**	4,388	(4)	**1,316**	1,353	(3)	**911**	917	(1)
Openreach	**4,930**	4,960	(1)	**2,132**	1,960	9	**1,078**	1,167	(8)
Other and intra-group items	**(4,859)**	(5,074)	4	**61**	92	(34)	**(1,267)**	(1,062)	(19)
Total	**20,076**	20,911	(4)	**5,886**	5,639	4	**2,223**	2,106	6

Notes:
[1] Before specific items. Specific items are defined below and analysed in note 4. In 2011, net interest on pensions has been included within specific items because of its volatile nature. Accordingly specific items for comparative periods have been re-presented.
[2] Before pension deficit payments of £505m in Q4 2011 and £1,030m in FY 2011 (Q4 2010: £nil, FY 2010: £525m).
[3] Adjusted for the impact of customer account moves and after reflecting the impact of changes in the internal trading model. The effect of the changes is primarily to reduce internal revenue in both BT Wholesale and Openreach by around £62m per quarter in 2011. There is no impact from these changes on total group revenue. In the line of business commentaries for BT Wholesale and Openreach, revenue has been measured against an adjusted basis reflecting the impact of changes in the internal trading model to enable a like for like comparison.
[4] Restated for the impact of customer account moves.
n/m = not meaningful

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

Underlying revenue is a measure which seeks to reflect the underlying revenue performance of the group that will contribute to long term profitable growth. As such it excludes any increases or decreases in revenue as a result of acquisitions or disposals, any foreign exchange movements affecting revenue and any specific items. We are focusing on the trends in underlying revenue excluding transit as transit traffic is low-margin and is significantly affected by reductions in mobile termination rates which have no impact on the group's profitability.

Enquiries

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The fourth quarter and full year 2011 results presentation for analysts and investors will be held in London at 9.00am today and a simultaneous webcast will be available at www.bt.com/results.

The BT Group plc Annual Report & Form 20-F is expected to be published on 27 May 2011. The Annual General Meeting of BT Group plc will be held at Old Billingsgate, London on 13 July 2011. Results for the first quarter to 30 June 2011 are expected to be announced on 28 July 2011.

About BT
BT is one of the world's leading providers of communications solutions and services operating in over 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 2011

GROUP RESULTS

Operating results overview

Revenue of £20,076m was in line with our outlook of around £20bn for the year. Foreign exchange movements had a negative impact of £44m and low-margin transit revenue reduced by £214m (including mobile termination rate reductions of £82m). Transit revenue was £1,518m in the year (2010: £1,758m). Underlying revenue excluding transit was down 3%.

Adjusted EBITDA increased by 4% to £5,886m, ahead of our outlook of around £5.8bn for the year. Foreign exchange movements had no significant impact on EBITDA in the year.

Total group operating costs decreased by £1,147m, or 6%, to £17,542m. Depreciation and amortisation decreased by 2% to £2,979m reflecting the lower levels of capital expenditure in the last two years partly offset by higher expenditure on shorter lived assets. Excluding depreciation and amortisation, group operating costs reduced by £1,087m, or 7%, ahead of our outlook of around £900m for the year.

Total labour costs decreased by 5% to £5,845m. Indirect labour costs reduced by 18% as we continue to reduce agency and contractor resource and redeploy existing permanent staff. Direct labour costs remained broadly flat at £4,830m with the reduction in labour resource being offset by pay inflation and increased pension costs. Leaver costs more than halved to £57m (2010: £142m). Payments to telecommunications operators were down 8%, reflecting lower mobile termination rates and reduced transit and wholesale call volumes. Property and energy costs and network maintenance and IT costs were 11% and 10% lower, respectively, as the group continues to drive efficiency improvements. Other operating costs decreased by 5%.

Capital expenditure was £2,590m, in line with our capital expenditure expectations of around £2.6bn for the year.

Net finance expense

Net finance expense was £845m, a decrease of £45m, due to the reduction in net debt and the repayment of higher coupon debt in the second half of the year.

Tax

The effective tax rate on the profit before specific items for the year was 21.7% (2010: 22.9%), reflecting the utilisation of tax losses and continued focus on tax efficiency within the group.

Specific items

Specific items in the year resulted in a net charge after tax of £127m (2010: £308m), the principal components of which are described below.

BT Global Services restructuring charges of £192m have been recognised in the year (2010: £301m) principally comprising network, people and property costs. Further charges of around £50m are expected to be incurred in 2012 in relation to the costs associated with BT Global Services network rationalisation programme. Specific operating costs also include property rationalisation charges of £88m (2010: £121m) and intangible asset impairment charges of £49m (2010: £nil).

Net interest expense on pensions was £79m (2010: £279m). In addition, there was a profit of £42m from disposing of a 6.5% interest in our associate Tech Mahindra during the year, reducing our holding to 23.5%.

The tax credit in respect of the above specific items was £72m (2010: £190m). A specific tax credit of £172m (2010: £nil) has been recognised for the re-measurement of deferred tax balances due to the change in the UK statutory corporation tax rate to 26%, effective from 1 April 2011. In addition, a specific tax charge of £5m (2010: £230m credit) was recognised relating to the settlement of outstanding tax matters from prior years.

Earnings per share

Adjusted EPS was 21.0p, up 21%, principally reflecting the higher operating profit and lower finance expense. Reported EPS was 19.4p, up 46%. This is based on average shares in issue of 7,750m (2010: 7,740m). A reconciliation of reported EPS to adjusted EPS is provided in Note 10.

Free cash flow
Free cash flow before specific items of £2,223m was ahead of our outlook of £2bn for the year.

Reported free cash flow was an inflow of £2,011m, up 4%, despite the prior year including the benefit of tax repayments and associated interest of £226m. Excluding this, free cash flow increased by 18% reflecting improved earnings and working capital. The level of working capital improvement is not expected to be repeated in 2012. A reconciliation of cash generated from operations to free cash flow is provided in Note 6.

Net debt and liquidity
Net debt was £8,816m at 31 March 2011, a reduction of £467m in the year. This reduction was after making pension deficit payments of £1,030m (2010: £525m). Net debt is reconciled in Note 7.

During the year we repaid maturing debt of £2.5bn from cash and investment balances. In March 2011, a new five-year £1.5bn committed facility was agreed. At 31 March 2011, the group had cash and investment balances of £370m and available facilities of £1.5bn. There are no significant debt maturities until the 2013 financial year.

Pensions
The IAS 19 net pension position at 31 March 2011 was a deficit of £1.4bn net of tax (£1.8bn gross of tax), compared with a deficit of £5.7bn at 31 March 2010 (£7.9bn gross of tax). The market value of the BT Pension Scheme assets increased by £1.7bn to £37.0bn at 31 March 2011, and the value of liabilities reduced by £4.3bn to £38.7bn. The increase in scheme assets reflects £1.0bn of deficit payments and the asset performance during the year offset by benefit payments. The liability valuation is based on the AA corporate bond rate of 5.50% (31 March 2010: 5.50%) and future inflation expectations. RPI inflation is assumed to be 3.40% (31 March 2010: 3.60%) and CPI inflation is assumed to be 1.5% below RPI for one year and 1.0% below RPI thereafter.

We expect the pensions operating charge for the BT Pension Scheme to be around £25m lower in 2012 as a result of the lower inflation assumptions. The net pension interest within specific items is expected to be a credit of around £200m, an improvement of around £275m as a result of the reduced deficit. We also expect the regular cash contributions to be around £130m lower in 2012 but to revert to around 2011 levels in 2013.

Since the funding valuation at 31 December 2008, the assets have generated investment returns equivalent to 11% per annum and the Trustee's initial estimate is that the funding deficit, on the prudent valuation basis, has reduced to around £3.2bn at 31 December 2010 after the deficit payment of £0.5bn in March 2011. On a median valuation basis, which reflects the expected returns from the assets held and likely liabilities, we estimate the scheme was in surplus of £3.2bn at 31 March 2011.

The Pensions Regulator's review of the 2008 BTPS funding valuation and recovery plan is now on hold and is not expected to recommence until the outcome of the final Court decision, including any potential appeals, is known on the Crown Guarantee. We do not expect this to be before the completion of the next triennial funding valuation as at 31 December 2011. As is usual, BT and the Trustee will engage with the Pensions Regulator regarding the 2011 valuation.

Dividends
The Board is committed to progressive dividends whilst balancing the need to invest in the business, reduce our net debt and support the pension fund. Taking these considerations into account, the Board is proposing a final dividend of 5.0p, up 9%, giving a full year dividend of 7.4p, up 7%.

Principal risks and uncertainties
The group's principal risks and uncertainties, which will be included in the BT Group plc Annual Report & Form 20-F 2011, expected to be published on 27 May 2011, are disclosed in Note 11.

Outlook
We are focussing on long-term profitable revenue growth. As transit traffic is low-margin and significantly impacted by regulatory reductions in mobile termination rates, with no impact on the group's profitability, we have excluded transit from our key measure of the underlying revenue performance of the group. Transit revenue declined by £214m in 2011, and we expect it to decline by around a further £400m in 2012 and £200m in 2013, largely due to mobile termination rate reductions. Underlying revenue excluding transit was down 3% in 2011 and we expect it to be in the range down 2% to flat in 2012 and to grow by up to 2% in 2013.

Adjusted EBITDA is expected to show further growth in 2012 and to be above £6.0bn in 2013. We expect adjusted free cash flow to be above the 2011 level in 2012 and 2013, with BT Global Services generating operating cash flow of around £200m in 2012.

RESULTS FOR THE FOURTH QUARTER TO 31 MARCH 2011

GROUP RESULTS

Operating results overview

Revenue was £5,055m, down 6%. Foreign exchange movements had a negative impact of £32m and low-margin transit revenue reduced by £92m (including mobile termination rate reductions of £28m). Underlying revenue excluding transit was down 4%. In addition, last year included revenue of around £100m from the early delivery of contract milestones in BT Global Services.

Adjusted EBITDA increased by 3% to £1,551m. Foreign exchange movements had no significant impact on EBITDA in the quarter.

Total group operating costs reduced by 8% to £4,367m. Depreciation and amortisation decreased by 3% to £762m. Excluding depreciation and amortisation, group operating costs reduced by £365m, or 9%.

Total labour costs decreased by 1% to £1,447m. Indirect labour costs reduced by 8% as we continue to reduce agency and contractor resource and redeploy existing permanent staff. Direct labour costs were broadly flat at £1,185m with the reduction in labour resource being offset by pay inflation and higher pension costs. Leaver costs were £21m (Q4 2010: £18m). Payments to telecommunications operators were down 6%, reflecting lower mobile termination rates and reduced transit and wholesale call volumes. Property and energy costs and network maintenance and IT costs were 8% and 18% lower, respectively, as the group continues to drive efficiency improvements. Other operating costs reduced by 21%.

Capital expenditure was £779m.

Net finance expense

Net finance expense was £186m, a decrease of £42m, due to the reduction in net debt and the repayment of higher coupon debt in the second half of the year.

Specific items

Specific operating costs comprised BT Global Services restructuring charges of £84m (Q4 2010: £52m), property rationalisation charges of £8m (Q4 2010: £121m) and intangible asset impairment charges of £10m (Q4 2010: £nil). In addition, there was a profit of £7m from the disposal of a 1.0% interest in our associate Tech Mahindra. Net interest expense on pensions was £20m (Q4 2010: £71m). The tax credit in respect of these items was £19m (Q4 2010: £56m). A specific tax credit of £96m (Q4 2010: £nil) has been recognised for the re-measurement of deferred tax balances due to the change in the UK statutory tax rate to 26%, effective from 1 April 2011.

Earnings per share

Adjusted EPS was 6.2p, up 22%. Reported EPS was 6.1p, up 126%.

Free cash flow

Free cash flow before specific items was £619m (Q4 2010: £1,089m) reflecting a more even quarterly profile of cash generation throughout the year. Reported free cash flow was an inflow of £546m (Q4 2010: £1,045m). There was a net cash outflow of £73m relating to specific items (Q4 2010: £44m outflow) principally comprising BT Global Services restructuring charges.

OPERATING REVIEW

BT Global Services

	Fourth quarter to 31 March				Year to 31 March		
	2011	2010	Change		**2011**	2010	Change
	£m	£m	£m	%	**£m**	£m	%
Revenue	**2,075**	2,292	(217)	(9)	**8,047**	8,513	(5)
Net operating costs[1]	**1,891**	2,115	(224)	(11)	**7,454**	8,056	(7)
EBITDA	**184**	177	7	4	**593**	457	30
Depreciation & amortisation	**195**	244	(49)	(20)	**734**	815	(10)
Operating loss	**(11)**	(67)	56	84	**(141)**	(358)	61
Capital expenditure	**143**	217	(74)	(34)	**498**	599	(17)
Operating cash flow	**70**	113	(43)	(38)	**119**	(482)	n/m

[1] Net of other operating income
n/m = not meaningful

Revenue
Revenue decreased by 9% in the quarter. Excluding the negative impact of foreign exchange movements of £27m and the reduction in low-margin transit revenue of £76m, underlying revenue excluding transit was down 5%. In addition last year included revenue of around £100m from the early delivery of contract milestones. Revenue in the year decreased by 5% and underlying revenue excluding transit decreased by 4%, reflecting reduced UK calls and lines revenue and the impact of the prior year contract milestones.

Total order intake was £1.9bn for the quarter and £7.3bn for the year, up 10%. In the quarter, we signed a number of contracts with leading organisations around the world including Carillion, to provide managed voice and data services to 800 sites in the UK and BASF, to deliver network services to 900 sites globally as well as local network and IP telephony services to more than 300 sites in North and South America and Asia-Pacific. We also signed a contract with Grupo Konecta in Spain to provide customer relationship management and wide area network services globally, and with Ecopetrol, Colombia’s largest company, to manage the customer’s information and communication technology environment.

Our investment in the Asia-Pacific region is on track in terms of recruitment, product roll-out, pipeline and contract wins. For example, in the quarter we signed a contract with PSA Corporation Limited, which operates the world’s largest container transhipment hub in Singapore, to support its IT requirements.

Operating results
Net operating costs reduced by 11%, or 7% excluding transit, as a result of further progress with our cost efficiency initiatives. EBITDA was £184m, up 4%. Depreciation and amortisation reduced by 20% as a result of the lower capital expenditure over the last two years. This contributed to a £56m reduction in the operating loss.

Capital expenditure was 34% lower due to the timing of capital expenditure across certain of our large customer contracts and the flattening of the expenditure profile over the year.

Operating cash flow for the year was an inflow of £119m, achieving our cash generation target a year early. This compares with an outflow of £482m last year. This improvement has been achieved through higher earnings, better working capital performance and greater efficiencies in capital expenditure. Operating cash flow for the quarter was £70m compared with £113m last year, reflecting a more even cash profile during the year. We expect to generate around £200m of operating cash flow in 2012.

BT Retail

	Fourth quarter to 31 March				Year to 31 March		
	2011	2010[1]	Change		**2011**	2010[1]	Change
	£m	£m	£m	%	**£m**	£m	%
Revenue	**1,927**	2,017	(90)	(4)	**7,748**	8,124	(5)
Net operating costs[2]	**1,451**	1,579	(128)	(8)	**5,964**	6,347	(6)
EBITDA	**476**	438	38	9	**1,784**	1,777	-
Depreciation & amortisation	**111**	106	5	5	**443**	459	(3)
Operating profit	**365**	332	33	10	**1,341**	1,318	2
Capital expenditure	**135**	164	(29)	(18)	**434**	417	4
Operating cash flow	**432**	437	(5)	(1)	**1,382**	1,566	(12)

[1] Restated for the impact of customer account moves
[2] Net of other operating income

Revenue
Revenue decreased by 4% in the quarter and 5% in the year. Revenue in the second half of the year was down 3%, an improvement on the 5% decline in the first half of the year, after excluding a one-off benefit in 2010 relating to prior periods.

Consumer revenue decreased by 5% in the quarter and 6% in the year. Active consumer line losses in the quarter were at the lowest level for four years but the year on year decline, combined with lower call volumes, more than offset the growth in broadband revenue. Consumer ARPU increased by £4 to £326, largely due to the increasing penetration of broadband in our customer base.

Business revenue was broadly flat in the quarter and decreased by 1% in the year. Business line losses were at the lowest level for more than three years although revenue was impacted by lower than expected IT hardware sales. However, revenue from IT services and mobility increased by 4% and 15%, respectively, in the quarter.

Enterprises revenue fell by 7% in the quarter and 2% in the year. In the quarter revenue was down primarily due to reduced low-margin revenue from videoconferencing equipment sales. Ireland revenue decreased by 4% in the quarter and 3% in the year, excluding the impact of foreign exchange and transit revenue reductions, in a difficult economic climate. BT Ireland secured a number of contracts in the quarter including a £33m contract with Three Ireland to roll out BT's high speed fibre network to mobile sites.

Broadband net additions were 162,000, representing a 64% market share of DSL and LLU net additions, our highest share for more than eight years, reflecting the success of our broadband strategy. During the quarter we launched a new energy-efficient Home Hub 3, including Smart Wireless which looks for the best wireless channel to ensure the strongest possible connection at all times. Net additions for BT Infinity, our super-fast broadband service, are currently running at an average of around 5,000 per week, and our BT Infinity customer base currently stands at 144,000. In areas where it is available, almost half of our new broadband customers are now opting for BT Infinity.

BT Vision net additions were 30,000 in the quarter, taking our customer base to 575,000. We continue to enhance our TV offering with BBC iPlayer currently being rolled out and faster HD downloads now available.

We have also seen continued rapid growth of our wi-fi network with over 2.8m hotspots. Customer usage has more than doubled over the year to almost 1bn minutes in the quarter.

Operating results
Net operating costs decreased by 8% with savings being partially offset by the planned investments in subscriber acquisition costs, marketing and product development. The decrease in costs was driven by reductions in total labour costs of 6% resulting from productivity and efficiency improvements, coupled with procurement savings. EBITDA increased by 9% and with depreciation and amortisation increasing by 5%, operating profit grew by 10%.

Capital expenditure decreased by 18%, principally as a result of the phasing of expenditure in the year. Operating cash flow reduced by 1% as last year included strong working capital receipts.

BT Wholesale

	Fourth quarter to 31 March				Year to 31 March		
	2011	2010[1]	Change		**2011**	2010[1]	Change
	£m	£m	£m	%	**£m**	£m	%
Revenue							
- adjusted[2]	**1,027**	1,078	(51)	(5)	**4,210**	4,388	(4)
- reported	**1,027**	1,129	(102)	(9)	**4,210**	4,592	(8)
Net operating costs[3]	**706**	795	(89)	(11)	**2,894**	3,239	(11)
EBITDA	**321**	334	(13)	(4)	**1,316**	1,353	(3)
Depreciation & amortisation	**156**	167	(11)	(7)	**619**	680	(9)
Operating profit	**165**	167	(2)	(1)	**697**	673	4
Capital expenditure	**92**	114	(22)	(19)	**329**	325	1
Operating cash flow	**331**	360	(29)	(8)	**911**	917	(1)

[1] Restated for the impact of customer account moves
[2] Prior year revenue after reflecting the impact of changes in the internal trading model
[3] Net of other operating income

Revenue
Adjusted revenue decreased by 5% in the quarter and 4% in the full year. The decline reflects the impact of reductions in low-margin transit revenue which declined by £16m in the quarter and £81m in the year, driven by mobile termination rate reductions. Underlying revenue excluding transit declined by 4% in the quarter and 3% in the year, primarily due to the continuing trend of migration to LLU and the associated reduction in broadband revenue. The full year includes a charge relating to prior periods following an Ofcom determination which we are appealing. The decline in underlying revenue excluding transit has been partially offset by further growth in our managed network services (MNS) revenue. MNS revenue represented 24% of external revenue in the year, up from 21% last year, and external revenue underpinned by long-term contracts has been maintained at 40%.

Wholesale Broadband Connect, our next generation copper broadband product offering speeds of up to 20Mbps, is enabled from over 1,000 exchanges serving over 65% of UK premises. We plan to extend this capability to around 80% of UK premises by December 2011. We have also enabled the 1,000th Ethernet over fibre node, reinforcing our position as the UK’s leading Ethernet over fibre network provider.

Operating results
Net operating costs decreased by 5%, or by 4% excluding transit, after reflecting the impact of changes in the internal trading model. The decrease was due to a reduction in total labour costs from process simplification, systems automation and continued control of discretionary expenditure, as well as lower payments to telecommunications operators due to lower transit revenue. EBITDA decreased by 4% and with depreciation and amortisation reducing by 7%, operating profit declined by 1%.

Capital expenditure decreased by 19%, principally as a result of the phasing of expenditure, which was broadly flat for the year. After adjusting for the effect of a prior year intra group VAT settlement with Openreach, operating cash flow decreased by 22% primarily due to the EBITDA decline and the timing of working capital payments.

Openreach

	Fourth quarter to 31 March				Year to 31 March		
	2011	2010	Change		**2011**	2010	Change
	£m	£m	£m	%	**£m**	£m	%
Revenue							
- adjusted[1]	**1,255**	1,230	25	2	**4,930**	4,960	(1)
- reported	**1,255**	1,281	(26)	(2)	**4,930**	5,164	(5)
Net operating costs[2]	**716**	791	(75)	(9)	**2,798**	3,204	(13)
EBITDA	**539**	490	49	10	**2,132**	1,960	9
Depreciation & amortisation	**227**	217	10	5	**877**	856	2
Operating profit	**312**	273	39	14	**1,255**	1,104	14
Capital expenditure	**294**	278	16	6	**1,087**	907	20
Operating cash flow	**282**	337	(55)	(16)	**1,078**	1,167	(8)

[1] Prior year revenue after reflecting the impact of changes in the internal trading model
[2] Net of other operating income

Revenue
Adjusted revenue increased by 2% in the quarter. External revenue was up 17% in the quarter, continuing the trend seen over the year as communications providers (CPs) continue to migrate customers from WLR to full LLU, together with further growth in Ethernet and copper line volumes. Internal revenue decreased by 3%, after reflecting the impact of changes in the internal trading model. Adjusted revenue for the year was marginally down as higher LLU and Ethernet volumes and provision activity were largely offset by the impact of the migration from WLR.

In the quarter, our overall copper line base increased by 26,000, continuing the trend in the previous quarter. This gives an increase of 11,000 for the full year compared with a loss of over 300,000 in the prior year. This is the first growth in the copper line base since the formation of Openreach in 2006 and reflects customers recognising the advantages of fixed-line broadband.

Operating results
After reflecting the impact of changes in the internal trading model, net operating costs reduced by 3%. This reduction was achieved after investing in customer service and reflects process efficiencies in our engineering activities. EBITDA increased by 10%, compared with a weak fourth quarter last year. Depreciation and amortisation increased by 5% reflecting investment in next generation broadband, Ethernet and fibre services. Operating profit increased by 14%.

Capital expenditure increased by 6% due to the investment in our fibre roll out and the increase in CPs' infrastructure build and provision activities. The fibre roll out programme, in which we have invested a total of £0.6bn to date, is one of the most rapid in the world with an average of around 80,000 new premises being passed every week. We expect to have passed 5m homes in the next few weeks and aim to increase this to 10m by 2012. During 2012 we will continue to expand our 100Mbps fibre-to-the-premises (FTTP) services and to test a 1Gbps service and we expect to roughly double our fibre-to-the-cabinet (FTTC) speeds to up to 80Mbps. Future changes are expected to take the potential for FTTC to over 100Mbps.

Operating cash flow was up 5% after adjusting for the effect of a prior year intra group VAT settlement with BT Wholesale, as higher EBITDA and improved working capital more than offset the increased capital expenditure.

FINANCIAL STATEMENTS

Group income statement
For the fourth quarter to 31 March 2011

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	5,055	-	**5,055**
Other operating income		101	-	**101**
Operating costs	3	(4,367)	(102)	**(4,469)**
Operating profit		789	(102)	**687**
Finance expense		(188)	(581)	**(769)**
Finance income		2	561	**563**
Net finance expense		(186)	(20)	**(206)**
Share of post tax profits of associates and joint ventures		7	-	**7**
Profit on disposal of interest in associate		-	7	**7**
Profit before tax		610	(115)	**495**
Tax		(132)	110	**(22)**
Profit for the period		478	(5)	**473**
Attributable to:				
Equity shareholders		477	(5)	**472**
Non-controlling interests		1	-	**1**
Earnings per share	10			
- basic		6.2p		**6.1p**
- diluted		5.8p		**5.8p**

Group income statement
For the fourth quarter to 31 March 2010

	Note	Before[1] specific items £m	Specific items[1] (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		(232)	(554)	**(786)**
Finance income		4	483	**487**
Net finance expense		(228)	(71)	**(299)**
Share of post tax profits of associates and joint ventures		9	-	**9**
Loss on disposal of interest in associate		-	(12)	**(12)**
Profit before tax		505	(254)	**251**
Tax		(113)	71	**(42)**
Profit for the period		392	(183)	**209**
Attributable to:				
Equity shareholders		392	(183)	**208**
Non-controlling interests		-	-	**1**
Earnings per share	10			
- basic		5.1p		**2.7p**
- diluted		4.9p		**2.6p**

[1] Re-presented due to the change in definition of specific items - see Note 1 for details.

Group income statement
For the year to 31 March 2011

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	20,076	-	**20,076**
Other operating income		373	-	**373**
Operating costs	3	(17,542)	(329)	**(17,871)**
Operating profit		2,907	(329)	**2,578**
Finance expense		(880)	(2,323)	**(3,203)**
Finance income		35	2,244	**2,279**
Net finance expense		(845)	(79)	**(924)**
Share of post tax profits of associates and joint ventures		21	-	**21**
Profit on disposal of interest in associate		-	42	**42**
Profit before tax		2,083	(366)	**1,717**
Tax		(452)	239	**(213)**
Profit for the year		1,631	(127)	**1,504**
Attributable to:				
Equity shareholders		1,629	(127)	**1,502**
Non-controlling interests		2	-	**2**
Earnings per share	10			
- basic		21.0p		**19.4p**
- diluted		20.1p		**18.5p**

Group income statement
For the year to 31 March 2010

	Note	Before[1] specific items £m	Specific items[1] (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		(902)	(2,211)	**(3,113)**
Finance income		12	1,943	**1,955**
Net finance expense		(890)	(268)	**(1,158)**
Share of post tax profits of associates and joint ventures		25	29	**54**
Loss on disposal of interest in associate		-	(12)	**(12)**
Profit before tax		1,735	(728)	**1,007**
Tax		(398)	420	**22**
Profit for the year		1,337	(308)	**1,029**
Attributable to:				
Equity shareholders		1,336	(308)	**1,028**
Non-controlling interests		1	-	**1**
Earnings per share	10			
- basic		17.3p		**13.3p**
- diluted		16.8p		**12.9p**

[1] Re-presented due to the change in definition of specific items - see Note 1 for details.

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

	Fourth quarter to 31 March		Year to 31 March	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Profit for the period	473	209	1,504	1,029
Other comprehensive income (loss)				
Actuarial movements on defined benefit pension schemes	1,375	949	5,109	(4,324)
Exchange gains (losses) on translation of foreign operations	(33)	112	(140)	(119)
Fair value movements on cash flow hedges				
- fair value (losses) gains	61	292	(347)	(1,067)
- recycled and reported in net profit	(85)	(307)	333	496
- reclassified and reported in non-current assets	-	(4)	-	(4)
Movement in assets available for sale reserve	4	3	15	7
Tax on components of other comprehensive income	(326)	(155)	(1,521)	1,350
Other comprehensive income (loss) for the period, net of tax	996	890	3,449	(3,661)
Total comprehensive income (loss) for the period	1,469	1,099	4,953	(2,632)
Attributable to:				
Equity shareholders	1,469	1,098	4,951	(2,633)
Non-controlling interests	-	1	2	1
	1,469	1,099	4,953	(2,632)

Group statement of changes in equity
For the year to 31 March 2011

	Share capital	**Reserves (Deficit)**	**Non-controlling interests**	**Total equity**
	£m	£m	£m	£m
At 1 April 2009	408	(266)	27	169
Total comprehensive loss for the year	-	(2,633)	1	(2,632)
Share-based payment	-	81	-	81
Net movement on treasury shares	-	4	-	4
Tax on items taken directly to equity	-	19	-	19
Dividends on ordinary shares	-	(263)	-	(263)
Other movements in non-controlling interests	-	-	(4)	(4)
At 31 March 2010	408	(3,058)	24	(2,626)
Total comprehensive income for the year	**-**	4,951	2	4,953
Share-based payment	**-**	68	-	68
Net movement on treasury shares	**-**	8	-	8
Tax on items taken directly to equity	**-**	91	-	91
Dividends on ordinary shares	**-**	(543)	-	(543)
At 31 March 2011	**408**	**1,517**	**26**	**1,951**

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

	Fourth quarter to 31 March		Year to 31 March	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Profit before tax	**495**	251	**1,717**	1,007
Depreciation and amortisation	**762**	788	**2,979**	3,039
Net finance expense	**206**	299	**924**	1,158
Associates and joint ventures	**(7)**	(9)	**(21)**	(54)
(Profit) loss on disposal of associate and non-current asset investments	**(7)**	10	**(42)**	10
Share-based payments	**18**	17	**68**	71
Decrease (increase) in working capital	**217**	484	**13**	(170)
Provisions, pensions and other non-cash movements[1]	**(577)**	112	**(863)**	(585)
Cash generated from operations	**1,107**	1,952	**4,775**	4,476
Tax (paid) received	**(100)**	(18)	**(209)**	349
Net cash inflow from operating activities	**1,007**	1,934	**4,566**	4,825
Cash flow from investing activities				
Interest received	**2**	1	**29**	16
Dividends received from associates and joint ventures	**2**	-	**7**	3
Proceeds on disposal of property, plant and equipment	**5**	2	**15**	29
Proceeds on sale of business	**-**	2	**-**	2
Acquisition of subsidiaries, net of cash acquired	**-**	(57)	**(8)**	(70)
Disposal of associates and joint ventures	**5**	-	**72**	-
Purchases of property, plant and equipment and computer software	**(753)**	(701)	**(2,645)**	(2,509)
Purchase of non-current asset investments	**(1)**	-	**(18)**	-
Purchase of current financial assets	**(1,755)**	(2,245)	**(8,902)**	(8,985)
Sale of current financial assets	**2,670**	2,574	**9,267**	8,739
Net cash received (used) in investing activities	**175**	(424)	**(2,183)**	(2,775)
Cash flow from financing activities				
Interest paid	**(221)**	(191)	**(973)**	(956)
Equity dividends paid	**(186)**	(178)	**(543)**	(265)
Repayment of borrowings	**(761)**	-	**(2,509)**	(307)
Repayment of finance lease liabilities	**-**	(10)	**(11)**	(24)
Receipt of bank loans and bonds	**-**	9	**340**	531
Cash flows from derivatives related to net debt	**(3)**	-	**120**	-
Net proceeds (repayment) on commercial paper	**53**	-	**69**	(697)
Proceeds on issue of treasury shares	**6**	3	**8**	4
Net cash used in financing activities	**(1,112)**	(367)	**(3,499)**	(1,714)
Effect of exchange rate movements	**(1)**	9	**(3)**	(7)
Net increase (decrease) in cash and cash equivalents	**69**	1,152	**(1,119)**	329
Cash and cash equivalents, net of bank overdrafts, at beginning of period	**256**	292	**1,444**	1,115
Cash and cash equivalents, net of bank overdrafts, at end of period	**325**	1,444	**325**	1,444

[1] Includes pension deficit payments of £505m in Q4 2011 and £1,030m in FY 2011 (Q4 2010: £nil, FY 2010: £525m)

Group balance sheet

	31 March 2011 £m	31 March 2010 £m
Non-current assets		
Intangible assets	**3,389**	3,672
Property, plant and equipment	**14,623**	14,856
Derivative financial instruments	**625**	1,076
Investments	**61**	64
Associates and joint ventures	**164**	195
Trade and other receivables	**286**	336
Deferred tax assets	**461**	2,196
	19,609	22,395
Current assets		
Inventories	**121**	107
Trade and other receivables	**3,332**	3,696
Derivative financial instruments	**108**	624
Investments	**19**	406
Cash and cash equivalents	**351**	1,452
	3,931	6,285
Current liabilities		
Loans and other borrowings	**485**	3,269
Derivative financial instruments	**62**	166
Trade and other payables	**6,114**	6,531
Current tax liabilities	**221**	320
Provisions	**149**	134
	7,031	10,420
Total assets less current liabilities	**16,509**	18,260
Non-current liabilities		
Loans and other borrowings	**9,371**	9,522
Derivative financial instruments	**507**	533
Retirement benefit obligations	**1,830**	7,864
Other payables	**831**	804
Deferred tax liabilities	**1,212**	1,456
Provisions	**807**	707
	14,558	20,886
Equity		
Ordinary shares	**408**	408
Reserves (deficit)	**1,517**	(3,058)
Total parent shareholders' equity (deficit)	**1,925**	(2,650)
Non-controlling interests	**26**	24
Total equity (deficit)	**1,951**	(2,626)
	16,509	18,260

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

The final results for the year to 31 March 2011 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 2011. The financial statements for the fourth quarter to 31 March 2011 are unaudited.

The financial information set out above does not constitute the company's statutory accounts for the years to 31 March 2011 or 2010 but is derived from those accounts. Statutory accounts for the year to 31 March 2010 were approved by the Board of Directors on 12 May 2010, published on 26 May 2010 and delivered to the Registrar of Companies, and those for 2011 are expected to be published on 27 May 2011. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for the year to 31 March 2010 and 31 March 2011.

Customer account moves
The 2010 line of business comparatives have been restated as a result of customer account moves between BT Retail, BT Wholesale and Openreach effective from 1 April 2010, which have no impact on total group results. The impact on prior period line of business results for the quarters and year to 31 March 2010 was disclosed in Note 2 to the financial statements for the first quarter to 30 June 2010.

Pension interest
Effective from 1 April 2010, net interest on pensions is included within specific items because of its volatile nature. Comparative figures have been re-presented accordingly.

Presentation of leaver costs
As stated in the 2010 final results announcement, effective from 1 April 2010 group and line of business adjusted results are reported after leaver costs. The impact on prior period group and line of business adjusted EBITDA for the quarters and year to 31 March 2010 was disclosed in Note 2 to the financial statements for the first quarter to 30 June 2010.

2 Operating results – by line of business

	External revenue[1]	Internal revenue	Group revenue	EBITDA[1]	Group operating profit (loss)[1]
	£m	£m	£m	£m	£m
Fourth quarter to 31 March 2011					
BT Global Services	**2,075**	**-**	**2,075**	**184**	**(11)**
BT Retail	**1,809**	**118**	**1,927**	**476**	**365**
BT Wholesale	**781**	**246**	**1,027**	**321**	**165**
Openreach	**380**	**875**	**1,255**	**539**	**312**
Other and intra-group items[2]	**10**	**(1,239)**	**(1,229)**	**31**	**(42)**
Total	**5,055**	**-**	**5,055**	**1,551**	**789**
Fourth quarter to 31 March 2010[3]					
BT Global Services	2,292	-	2,292	177	(67)
BT Retail	1,906	111	2,017	438	332
BT Wholesale	823	306	1,129	334	167
Openreach	324	957	1,281	490	273
Other and intra-group items[2]	11	(1,374)	(1,363)	73	19
Total	5,356	-	5,356	1,512	724
Year to 31 March 2011					
BT Global Services	**8,047**	**-**	**8,047**	**593**	**(141)**
BT Retail	**7,302**	**446**	**7,748**	**1,784**	**1,341**
BT Wholesale	**3,230**	**980**	**4,210**	**1,316**	**697**
Openreach	**1,459**	**3,471**	**4,930**	**2,132**	**1,255**
Other and intra-group items[2]	**38**	**(4,897)**	**(4,859)**	**61**	**(245)**
Total	**20,076**	**-**	**20,076**	**5,886**	**2,907**
Year to 31 March 2010[3]					
BT Global Services	8,513	-	8,513	457	(358)
BT Retail	7,751	373	8,124	1,777	1,318
BT Wholesale	3,366	1,226	4,592	1,353	673
Openreach	1,241	3,923	5,164	1,960	1,104
Other and intra-group items[2]	40	(5,522)	(5,482)	92	(137)
Total	20,911	-	20,911	5,639	2,600

[1] Before specific items. Specific items for comparative periods have been re-presented due to the change in definition of specific items. See Note 1.
[2] Elimination of intra-group revenue, which is included in the total revenue of the originating business
[3] Restated for the impact of customer account moves – see Note 1 for details

3 Operating costs

	Fourth quarter to 31 March		Year to 31 March	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Direct labour costs	**1,185**	1,176	**4,830**	4,862
Indirect labour costs	**241**	263	**958**	1,162
Leaver costs	**21**	18	**57**	142
Total labour costs	**1,447**	1,457	**5,845**	6,166
Direct labour capitalised	**(187)**	(155)	**(718)**	(575)
Indirect labour capitalised	**(89)**	(103)	**(329)**	(440)
Net labour costs	**1,171**	1,199	**4,798**	5,151
Payments to telecommunications operators	**872**	929	**3,740**	4,083
Property and energy costs	**290**	314	**1,149**	1,284
Network maintenance and IT costs	**156**	191	**706**	781
General and administrative costs	**357**	377	**1,384**	1,424
Other operating costs	**759**	960	**2,786**	2,927
Operating costs before depreciation and specific items	**3,605**	3,970	**14,563**	15,650
Depreciation and amortisation	**762**	788	**2,979**	3,039
Total operating costs before specific items	**4,367**	4,758	**17,542**	18,689
Specific items (Note 4)	**102**	173	**329**	427
Total operating costs	**4,469**	4,931	**17,871**	19,116

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**	
	2011	2010[1]	**2011**	2010[1]
	£m	£m	**£m**	£m
Revenue provision for regulatory settlement	**-**	-	-	52
Profit on disposal of business	**-**	(2)	**-**	(2)
BT Global Services restructuring charges	**84**	52	**192**	301
Property rationalisation charges	**8**	121	**88**	121
Intangible asset impairment charges	**10**	-	**49**	-
Costs associated with settlement of prior tax years	**-**	-	**-**	5
Specific operating items	**102**	171	**329**	477
Net interest expense on pensions	**20**	71	**79**	279
Interest on settlement of open tax years	**-**	-	**-**	(11)
Specific net finance expense	**20**	71	**79**	268
(Profit) loss on disposal of interest in associate	**(7)**	12	**(42)**	12
Impact of renegotiated supply contracts on associate	**-**	-	**-**	(29)
Net specific items charge before tax	**115**	254	**366**	728
Tax credit on specific items before tax	**(19)**	(56)	**(72)**	(190)
Tax credit on re-measurement of deferred tax	**(96)**	-	**(172)**	-
Tax charge (credit) in respect of settlement of prior tax years	**5**	(15)	**5**	(230)
Net specific items charge after tax	**5**	183	**127**	308

[1] Re-presented due to the change in definition of specific items - see Note 1 for details.

5 Dividends

The Board is recommending a final dividend of 5.0p per share (2010: 4.6p). Subject to shareholder approval, this will be paid on 5 September 2011 to shareholders on the register at 12 August 2011. The ex-dividend date is 10 August 2011. This final dividend, amounting to approximately £388m (2010: £356m) has not been included as a liability as at 31 March 2011. It will be recognised as an appropriation of retained earnings within shareholders' equity in the quarter to 30 September 2011. This takes the total proposed dividend for the year to 7.4p per share (2010: 6.9p per share).

6 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	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Cash generated from operations	**1,107**	1,952	**4,775**	4,476
Tax (paid) received	**(100)**	(18)	**(209)**	349
Net cash inflow from operating activities	**1,007**	1,934	**4,566**	4,825
Add back pension deficit payments	**505**	-	**1,030**	525
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	**(748)**	(699)	**(2,630)**	(2,480)
Dividends received from associates	**2**	-	**7**	3
Interest received	**2**	1	**29**	16
Purchases of non-current financial assets	**(1)**	-	**(18)**	-
Included in cash flows from financing activities				
Interest paid	**(221)**	(191)	**(973)**	(956)
Free cash flow	**546**	1,045	**2,011**	1,933
Net cash outflow from specific items	**73**	44	**212**	173
Free cash flow before specific items	**619**	1,089	**2,223**	2,106

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	
	2011	2010
	£m	£m
Loans and other borrowings[1]	**9,856**	12,791
Cash and cash equivalents	**(351)**	(1,452)
Investments	**(19)**	(406)
	9,486	10,933
Adjustments:		
To re-translate currency denominated balances at swapped rates where hedged	**(408)**	(1,326)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	**(262)**	(324)
Net debt	**8,816**	9,283

[1] Includes overdrafts of £26m at 31 March 2011 (31 March 2010: £8m)

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

Earnings before interest, taxation, depreciation and amortisation (EBITDA) is not a measure defined under IFRS, but is a key indicator used by management to assess operational performance. A reconciliation of reported profit before tax to adjusted EBITDA is provided below.

	Fourth quarter to 31 March		Year to 31 March	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Reported profit before tax	**495**	251	**1,717**	1,007
Share of post tax profits of associates and joint ventures	**(7)**	(9)	**(21)**	(54)
(Profit) loss on disposal of associate	**(7)**	12	**(42)**	12
Net finance expense	**206**	299	**924**	1,158
Operating profit	**687**	553	**2,578**	2,123
Depreciation and amortisation	**762**	788	**2,979**	3,039
Reported EBITDA	**1,449**	1,341	**5,557**	5,162
Specific items (Note 4)	**102**	171	**329**	477
Adjusted EBITDA	**1,551**	1,512	**5,886**	5,639

9 Reconciliation of adjusted profit before tax

	Fourth quarter to 31 March		Year to 31 March	
	2011	2010	**2011**	2010
	£m	£m	**£m**	£m
Reported profit before tax	**495**	251	**1,717**	1,007
Specific items (Note 4)	**115**	254	**366**	728
Adjusted profit before tax	**610**	505	**2,083**	1,735

10 Reconciliation of adjusted earnings per share

	Fourth quarter to 31 March		Year to 31 March	
	2011	2010	**2011**	2010
	pence per share		pence per share	
Reported basic earnings per share	**6.1**	2.7	**19.4**	13.3
Per share impact of specific items	**0.1**	2.4	**1.6**	4.0
Adjusted earnings per share	**6.2**	5.1	**21.0**	17.3

11 Principal risks and uncertainties (extracted from the BT Group plc Annual Report & Form 20-F 2011)

Our approach to managing risk
BT has in place group-wide risk management processes for the identification, evaluation, treatment and subsequent monitoring of risks which may significantly threaten the accomplishment of our objectives and long-term strategic aims. Our risk management processes are operated within BT lines of business (LoB), internal service units, group functions, contracts, projects and programmes and are aggregated at group level. The approach is defined in our group-wide risk management policies.

Management is responsible for identifying, evaluating, mitigating and monitoring risks. Those risks which are significant to the group are reported and monitored through the Group Risk Register (GRR) which is formally updated quarterly. The GRR includes those risks identified from across the group, which are significant as assessed on a quantitative and qualitative basis. Each risk, including those in the GRR, is assigned a management owner who is responsible for the ongoing monitoring of the risk including changes to the risk profile and progress of the mitigations.

The Board has overall responsibility for ensuring that our risks are managed appropriately and, either directly or through its subcommittees, the Operating Committee and the Audit & Risk Committee, undertakes regular reviews of the management of the risks at group-wide, LoB, internal service units and group function levels.

The Board and the Operating Committee are supported in their oversight of risk management by the Group Risk Panel who review the GRR quarterly, consider new or emerging risks, make recommendations on the strength of mitigations and monitor the work of the Group Risk Management function. Our reporting is structured so that emerging key issues are escalated through management to the Board as appropriate.

Principal risks and uncertainties
In common with all businesses, BT is affected by a number of risks and uncertainties, some of which are not within our control. Many of our risks are similar to those of comparable companies in terms of scale and operation. Economic uncertainty remains a major challenge to businesses globally and we remain conscious of those risks in all our business undertakings. Compliance in a global environment and our supply chain are now recognised as principal risks along with those risks reported on last year which were security and resilience; major contracts; pensions; growth in a competitive market and communications industry regulation.

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. These risks have the potential to impact our business, revenues, profits, assets, liquidity and capital resources adversely. Our processes are designed to give reasonable, but cannot give absolute, assurance that the risks significant to the group are identified and addressed. There may be risks which are unknown or which are presently judged not to be significant but later prove to be significant.

We have included comment on mitigations that we apply to help us manage the risks; however it is possible that not all of these mitigations will be successful. The principal risks and uncertainties should be considered in conjunction with the risk management process, the forward-looking statements for this document and the cautionary statement regarding forward-looking statements on page 27.

Security and resilience
BT is dependent on the secure operation and resilience of its information systems, networks and data. 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.

Certain of our customers require specific, highly sophisticated security provisioning which we are contractually obliged to meet and through our continuing success in meeting those requirements we are able to differentiate our offerings from those of our competitors.

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

Risk mitigation
We operate well established policies addressing the security and resilience requirements of our operations, our systems and systems operated by us for our customers. We have a corporate resilience strategy and business continuity plans in place designed to deal with catastrophic events including, for example, major terrorist action, industrial action, cyber-attacks or natural disasters.

Our mitigations for this diverse risk are continuously reviewed and updated which, in 2011, led to more stringent application of data encryption and segregation measures, the deployment of increasingly sophisticated anomaly and intrusion detection systems, and migration to distributed and virtual data centre designs that provide much greater inherent resilience.

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

The degree of risk varies generally in proportion to the scope and life of the contract and is typically higher in the early transitional and transformational stages of the contract. Some customer contracts require 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 upfront costs may be adversely impacted by delays or failure to meet milestones. Substantial performance risk exists in these contracts, and some or all elements of performance depend upon successful completion of the transition, development, transformation and deployment phases.

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

Risk mitigation
We have developed business processes in support of each stage of the major contract life cycle: bid, in life, renewal and termination. Our programme of in-life reviews has been enhanced over the past two years and is designed to validate financial and non financial controls over delivery of the contracts and incorporates tiered levels of defined review according to the scale and complexity of the contract. All our contracts are subject to regular management review and many are subject to independent review (both internal and external) as part of that governance. Independent review helps us identify lessons learned and to promulgate best practice through the business.

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 main 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 was agreed with the Trustee in February 2010. Under this prudent funding valuation basis the deficit was £9bn and a 17-year recovery plan was agreed.

The valuation and the recovery plan are under review by the Pensions Regulator whose initial view was that they had substantial concerns with certain features of the agreement. Their review is now on hold and is not expected to recommence until the outcome of the final Court decision, including any potential appeals, is known on the Crown Guarantee. Accordingly, as matters stand, it is uncertain as to when they will conclude their review. This uncertainty is outside of our control. However, we do not expect this to be before the completion of the next triennial funding valuation at 31 December 2011. As is usual, BT and the Trustee will engage with the Pensions Regulator regarding the 2011 valuation.

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

Risk mitigation
Since the funding valuation at 31 December 2008 there have been a number of significant developments. With effect from 1 April 2009 a number of benefit changes were implemented which reduce the cost of future benefit accruals and the associated risks. During 2011 the UK Government decision to change the indexation of pension benefits from the Retail Prices Index to the Consumer Prices Index has affected some sections of the BTPS and resulted in a significant reduction in the liabilities and associated risks.

The returns generated on the assets since 31 December 2008 have also been significantly greater than assumed in the funding valuation. As a result the Trustee's initial estimate is that the funding valuation had reduced to £3.2bn at 31 December 2010 after the deficit payment of £0.5bn in March 2011. We took the opportunity to accelerate the deficit payment due in December 2011 to March 2011 as it was economically advantageous to do so.

The investment performance and liability experience as well as the associated risk exposures are regularly reviewed and monitored by both the company and the Trustee of the scheme.

Growth in a competitive market
We operate in markets which are characterised by high levels of competition including: regulatory intervention on promoting competition; declining prices; technology substitution; market and service convergence; customer churn; declining rates of market growth; and emerging competitors with non replicable sources of competitive advantage.

A significant proportion of our revenue and profit are generated in the UK telecommunications markets which are experiencing limited growth in revenue terms and in many cases are highly competitive. Revenue from our fixed line calls and lines services to consumers and businesses have historically been in decline. Our ability to deliver profitable revenue growth depends on delivering on our strategic priorities.

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

Risk mitigation
We have a clearly defined strategy aimed at delivering growth, the successful delivery of which will address the need for growth in revenue.

Our strategic priorities are underpinned by our view of the markets in which we operate. Performance against our business plans is closely monitored by management allowing interventions where appropriate.

The group has a well developed cost transformation programme in place which has achieved significant savings and which has from a profitability perspective mitigated the revenue declines and helped ensure a competitive cost base.

Communications industry regulation
Some of our activities continue to be subjected to significant price and other regulatory controls which may affect our market share, competitive position, future profitability and cash resources. Many of our wholesale fixed network activities in the UK are subject to significant regulatory controls. The controls regulate, among other things, the prices we can charge for many of our services and the extent to which we have to provide services to other CPs. In recent years the effect of these controls has required us to reduce our prices, although in some recent cases, prices have been allowed to increase in real terms.

Regulatory authorities may increase the severity of the price controls, extend the services to which controls apply or extend the services which we provide to other CPs. These controls may adversely affect our market share, our ability to compete and our future profitability and cash resources. Wholesale customers may also raise disputes with Ofcom, seeking lower prices on wholesale services which are not subject to direct price control.

Impact
In recent years, changes in price controls have required us to reduce our prices and in some instances to make payments in respect of retrospective price adjustments. Additional or more substantial regulatory price reductions could constrain our revenue growth. Regulatory actions may also indirectly affect us. For example, Ofcom has reduced the mobile termination rates that mobile network operators can charge to terminate calls on their network. There will be a stepped reduction in prices over four years starting from April 2011. This regulatory action will have a significant impact on future transit revenues in the UK and Europe.

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

Risk mitigation
We continuously monitor and review potential regulatory changes and disputes, and maintain a strategic dialogue with regulators and other key influencers on critical issues.

Compliance in a global environment
Some of the countries where we operate have increased their enforcement of local laws and therefore the potential impact of failing to comply with local and international legislative requirements has increased significantly. Legislation is increasingly multi jurisdictional and the potential penalties, including fines, that have been levied against a number of organisations, have grown in frequency and value.

Legal compliance obligations include antitrust and anticorruption legislation, competition law, data privacy, trade sanctions, import and export controls, taxation and telecommunications regulatory requirements and the UK Bribery Act which comes into effect in July 2011 with increased penalties for non-compliant businesses and introduces the offence of failing to prevent bribery. With the breadth of BT's operations and complex commercial relationships we must ensure that we and our business partners are compliant as a continuing priority.

Impact
Failure to comply with legal requirements can have a significant impact and lead to a loss of reputation and damage to our brand with investors, regulators and customers. Non-compliance with legislation, including requirements to maintain adequate systems and controls, may also lead to prosecution, penalties and in some cases could lead to litigation and loss of revenues and loss of profits.

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

Risk mitigation
We have in place a number of established controls to address this risk including: a clear and comprehensive code of conduct, 'The Way We Work', which is part of the mandatory training of all employees; compliance policies; global training programmes promoting adherence to applicable laws; a BT Ethics programme introduced to increase the due diligence of our suppliers, contractors, agents and business consultants; and a programme of assurance within the business. On a regular basis, we also review our anti-corruption and bribery measures and are implementing additional procedures.

Supply chain
We are dependent upon our supply chain for the delivery of goods and services on time, to cost and specification. A number of factors, including the continuing economic uncertainty have contributed to a heightening of the risk of this reliance. Failure of any of our critical suppliers to meet agreed deliverables could adversely impact our customer service, product launch, business critical systems updates, revenues or cost efficiency.

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

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

Impact
Our suppliers could be adversely affected by economic conditions which in turn could impact their ability to meet their obligations to us or, in the extreme, cause them to fail. If we are unable to contract with an alternative supplier our customer commitments could also be compromised leading to contractual breach, loss of revenue, penalties or increased costs.

A failure in our supply chain to meet legal obligations or ethical expectations could adversely impact our reputation or possibly lead to censure, legal action and financial loss.

Risk mitigation
We continue to mitigate this risk through a number of measures including: globally coordinated vendor management programmes; rigorous bid controls; supplier risk assessments including focus on our most critical suppliers; our Procurement Academy Programme, an internal training initiative; anticorruption and bribery awareness training; and CR and Compliance Health Checks. We work with our suppliers to ensure that the goods and services that we buy are made, delivered and disposed of in a socially and environmentally responsible manner.

Forward-looking statements – caution advised

Certain statements in this results release are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: outlook including underlying revenue trends, and profits, free cash flow, revenue and EBITDA growth; our fibre roll out programme and increased fibre-to-the-cabinet speed; BT Global Services' rationalisation programme and cash flow; the operating charge, net interest and cash contributions in relation to the BT Pension Scheme; progressive dividends; the success of our broadband strategy; the lower level of line losses; and increase in the copper line base.

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 Pensions 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.