BT Group plc

Results for the fourth quarter to 31 March 2018

10 May 2018

BT Group plc (BT.L) today announced its results for the fourth quarter and year to 31 March 2018.

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

"BT delivered a solid set of financial results in the fourth quarter, with growth in our consumer divisions offset by declines in our enterprise businesses, due to both challenging market conditions and our decision to exit lower margin business.

"We continue to invest for growth, having now passed 1.5m premises with our ultrafast network and securing 40MHz of 3.4GHz spectrum suitable for 5G mobile services. We are improving our customer experience across the Group, with our key metrics of Group NPS[1] and Right First Time[2] both strongly up.

"Our integration and restructuring activities remain on track. The integration of EE into BT is delivering run rate cost synergies of £290m. Our restructuring programme has removed over 2,800 roles and delivered savings of £180m during the year.

"I am pleased that we have reached agreement with the Trustee on the pension valuation and recovery plan, which is affordable within our capital allocation framework, and draws a line under a key source of uncertainty for our stakeholders.

"We have announced today an update to our strategy to accelerate leadership in converged connectivity and services. Our strategy will drive sustainable growth in value by focusing on delivering differentiated customer experiences, investing in integrated network leadership, and transforming our operating model."

Key developments for the quarter:

- Strategy announced today to drive sustainable long term growth in value by leading in converged connectivity, including removal of 13,000 roles at a total cost of £800m – see separate press release
- Continued improvement in customer experience metrics; Group NPS[1] up 8.3 points and Right First Time[2] up 4.3%
- Clarity on the pricing of key products provided in Ofcom's final statement on Wholesale Local Access regulation
- 40MHz of 3.4GHz spectrum secured; positions us well for launch of 5G and strengthens network leadership
- Consumer businesses brought together from 1 April 2018 and Enterprise businesses from 1 October 2018
- Triennial pension deficit agreed at £11.3bn, 13 year recovery plan including payments of £2.1bn over the three years to 31 March 2020 in line with prior recovery plan and a further £2.0bn contribution, due to be funded by the issuance of bonds which will be held by the BTPS; BTPS closed to future defined benefit accruals from 30 June 2018 reducing future exposure to pensions risk – see separate press release
- Outlook for 2018/19: underlying[3] revenue down c.2%, adjusted[4] EBITDA £7.3bn - £7.4bn, capital expenditure[5] c.£3.7bn and normalised free cash flow[4] of £2.3bn - £2.5bn
- Proposed final dividend of 10.55p, giving a full year dividend of 15.4p, unchanged from 2016/17

Financial:

- Reported revenue down 1% for the year and 3% for the quarter. Underlying[4] revenue down 1% for the year and 1.4% for the quarter
- Adjusted[4] EBITDA of £7,505m for the year, down 2%, and £2,083m for the quarter up 1%
- Reported profit before tax up 11% for the year and up 98% for the quarter mainly due to specific items in the prior year. Adjusted[4] profit before tax down 2% for the year but up 1% for the quarter
- Reported basic earnings per share 20.5p for the year. Adjusted[4] earnings per share 27.9p for the year
- Net cash inflow from operating activities £4,927m for the year, and £746m for the quarter and normalised free cash flow[4] £2,973m for the year, and £1,026m for the quarter
- 2017/18 underlying[4] revenue down 1.0% and lower than our outlook for the full year. Adjusted[4] EBITDA within our outlook range, normalised free cash flow[4] exceeded our outlook

	Fourth quarter to 31 March 2018		Year to 31 March 2018	
	£m	Change[6]	**£m**	Change[6]
Reported measures				
Revenue	**5,967**	(3)%	**23,723**	(1)%
Profit before tax	**872**	98%	**2,616**	11%
Basic earnings per share	**7.3p**	92%	**20.5p**	7%
Net cash inflow from operating activities	**746**	£(845)m	**4,927**	£(1,247)m
Adjusted measures				
Change in underlying[4] revenue excluding transit		(1.4)%		(1.0)%
Adjusted[4] EBITDA	**2,083**	1%	**7,505**	(2)%
Adjusted[4] profit before tax	**1,046**	1%	**3,444**	(2)%
Adjusted[4] basic earnings per share	**8.8p**	5%	**27.9p**	(3)%
Normalised free cash flow[4]	**1,026**	£192m	**2,973**	£191m
Net debt[4]			**9,627**	£695m

Operational:

- Gfast premises of 1m and FTTP premises of 560,000 passed in Q4; over 1.5m premises able to connect to ultrafast service
- Openreach fibre connections at 555,000 in Q4 with superfast fibre broadband passing nearly 27.6m UK premises
- 4G coverage reaches 90% of the country as we deploy in hard to reach areas
- Mobile postpaid net additions of 95,000, with low churn of 1.2%; monthly mobile postpaid ARPU down 1% to £26.0
- BT Sport rights packages secured; includes Premier League matches for a further three years from 2019/20
- Average BT Sport viewing increased 19% year on year; second best quarterly performance since launch
- BT Consumer revenue generating units per customer increased 3% to 2.03, with ARPU up 5% to £41.7
- Order intake, on a rolling 12-month basis, up 1% to £3,391m for Business and Public Sector, down 28% to £1,419m for Wholesale and Ventures and down 17% to £3,845m for Global Services, reflecting market conditions and our strategy to exit lower margin business
- Integration run rate cost synergies now at £290m; restructuring initiatives delivered in year savings of £180m

Performance against 2017/18 outlook:

	2017/18 outlook	2017/18 performance
Change in underlying[4] revenue excluding transit	Broadly flat	(1.0%)
Adjusted[4] EBITDA	£7.5bn - £7.6bn	£7.5bn
Normalised free cash flow[4]	£2.7bn - £2.9bn	£3.0bn

Our outlook for 2018/19 is as follows:

	2018/19 outlook
Change in underlying[3] revenue (IAS18 basis)	Down c.2%
Adjusted[4] EBITDA (IAS18 basis)	£7.3bn - £7.4bn
Capital expenditure[5]	c.£3.7bn
Normalised free cash flow[4]	£2.3bn - £2.5bn

Glossary of alternative performance measures

Adjusted	Before specific items
Free cash flow	Cash generated from operations (after capital expenditure) excluding pension deficit payments and after interest, tax and non-current asset investments
Net debt	Loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Currency denominated balances within net debt are translated to Sterling at swapped rates where hedged
Normalised free cash flow	Free cash flow before specific items and the cash tax benefit of pension deficit payments
Specific items	Items that in management's judgement need to be disclosed separately by virtue of their size, nature or incidence. Further information is provided in note 1 on page 45
Underlying	Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals. Further information is provided in note 2 on page 45

Reconciliations to the most directly comparable IFRS measures are in Additional Information on pages 45 to 48. Our commentary focuses on the trading results on an adjusted basis. Unless otherwise stated in the commentary, revenue, operating costs, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, profit before tax, net finance expense, earnings per share (EPS) and normalised free cash flow are measured before specific items. Further information is provided in note 1 on page 45.

[1] Group NPS measures Net Promoter Score in our retail businesses and Net Satisfaction in our wholesale businesses
[2] Measured against Group-wide 'Right First Time' (RFT) index
[3] Including transit, but excluding specific items, foreign exchange movements and the effect of acquisitions and disposals
[4] See Glossary above
[5] Excluding BDUK clawback
[6] Measured against the comparative period in the prior year

Group results for the fourth quarter and year to 31 March 2018

	Fourth quarter to 31 March			Year to 31 March		
	2018	2017	Change	**2018**	2017	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- reported	**5,967**	6,122	(3)	**23,723**	24,062	(1)
- adjusted[1]	**5,967**	6,128	(3)	**23,746**	24,082	(1)
- change in underlying[1] revenue excluding transit			(1.4)			(1.0)
EBITDA						
- reported	**1,964**	1,591	23	**6,895**	6,739	2
- adjusted[1]	**2,083**	2,069	1	**7,505**	7,645	(2)
Operating profit						
- reported	**1,075**	638	68	**3,381**	3,167	7
- adjusted[1]	**1,194**	1,178	1	**3,991**	4,135	(3)
Profit before tax						
- reported	**872**	440	98	**2,616**	2,354	11
- adjusted[1]	**1,046**	1,031	1	**3,444**	3,532	(2)
Basic earnings per share						
- reported	**7.3p**	3.8p	92	**20.5p**	19.2p	7
- adjusted[1]	**8.8p**	8.4p	5	**27.9p**	28.9p	(3)
Capital expenditure	**951**	1,022	(7)	**3,522**	3,454	2
Normalised free cash flow[1]	**1,026**	834	23	**2,973**	2,782	7
Net debt[1]				**9,627**	8,932	£695m

Customer-facing unit results

	Adjusted[1] revenue			Adjusted[1] EBITDA			Normalised free cash flow[1]		
Fourth quarter to	**2018**	2017	Change	**2018**	2017	Change	**2018**	2017	Change
31 March	**£m**	£m	%	**£m**	£m	%	**£m**	£m	%
BT Consumer	**1,289**	1,246	3	**295**	261	13	**243**	159	53
EE	**1,320**	1,259	5	**433**	316	37	**236**	107	121
Business and Public Sector	**1,157**	1,222	(5)	**362**	391	(7)	**340**	433	(21)
Global Services	**1,241**	1,422	(13)	**137**	204	(33)	**220**	95	132
Wholesale and Ventures	**506**	541	(6)	**204**	220	(7)	**151**	147	3
Openreach	**1,289**	1,289	-	**641**	695	(8)	**229**	296	(23)
Other	**-**	4	n/m	**11**	(18)	n/m	**(393)**	(403)	2
Intra-group items	**(835)**	(855)	2	**-**	-	-	**-**	-	-
Total	**5,967**	6,128	(3)	**2,083**	2,069	1	**1,026**	834	23
Year to 31 March									
BT Consumer	**5,066**	4,934	3	**1,023**	1,012	1	**635**	709	(10)
EE	**5,294**	5,090	4	**1,353**	1,156	17	**754**	570	32
Business and Public Sector	**4,563**	4,758	(4)	**1,418**	1,528	(7)	**1,136**	1,293	(12)
Global Services	**5,013**	5,479	(9)	**434**	495	(12)	**118**	(245)	n/m
Wholesale and Ventures	**2,009**	2,109	(5)	**754**	834	(10)	**509**	587	(13)
Openreach	**5,123**	5,098	-	**2,520**	2,633	(4)	**1,048**	1,349	(22)
Other	**8**	10	n/m	**3**	(13)	n/m	**(1,227)**	(1,481)	(17)
Intra-group items	**(3,330)**	(3,396)	(2)	**-**	-	-	**-**	-	-
Total	**23,746**	24,082	(1)	**7,505**	7,645	(2)	**2,973**	2,782	7

n/m = not meaningful

[1] See Glossary on page 2

Overview of the year to 31 March 2018

OVERVIEW

Reported revenue has declined 1% to £23,723m. The 3% growth in our consumer businesses was more than offset by decline in our enterprise divisions. The main contributor to enterprise revenue decline was Global Services whose reported revenue declined 9% due to ongoing challenging market conditions and a reduction in IP Exchange volumes and equipment sales in line with our strategy to reduce low margin business. Underlying[1] revenue was down 1.0%, lower than our outlook for the full year.

Adjusted[1] EBITDA of £7,505m was down 2%, within the range of our outlook. The decline reflects the lower revenue, costs of investment in mobile devices and customer experience along with higher business rates and pension costs, partly offset by cost savings. Reported profit before tax was up 11% mainly due to specific items in the prior year.

Net cash inflow from operating activities was down £1,247m at £4,927m, including £598m higher pension payments in the year, £623m higher cash flows relating to specific items and £325m[2] of payments in respect of the acquisition of spectrum. Normalised free cash flow[1], which excludes these pensions, specifics and spectrum payments, was up £191m to £2,973m, exceeding our outlook, mainly driven by favourable working capital movements.

BT and the Trustee of the BT Pension Scheme (BTPS) have reached agreement on the 2017 triennial funding valuation and recovery plan. The funding deficit at 30 June 2017 is £11.3bn. The deficit will be met over a 13 year period, maintaining the remaining period of the previous recovery plan, including payments of £2.1bn over the three years to 31 March 2020 and a further £2.0bn contribution, due to be funded from the proceeds of the issuance of bonds which will be held by the BTPS. Over the quarter, we also announced the closure of Sections B and C of the BTPS (representing over 99% of the BTPS active membership) to future benefit accrual, having reached agreement with our employees' unions. This is now expected to take effect from 30 June 2018.

STRATEGIC AND OPERATIONAL UPDATE

Deliver differentiated customer experiences

Customer experience remains central to our strategy and long-term growth. Our customers' overall perception of BT improved for the seventh successive quarter with Group NPS[3] increasing by 8.3 points when compared to the 2016/17 baseline. We are also improving the consistency and quality of our service with our 'Right First Time'[4] performance increasing by 4.3% from the same baseline period. Our customer experience performance continues to be underpinned by our investment in the quality of our service, the performance of our network and in ensuring our products evolve to meet our customers' changing needs.

Our proactive maintenance programme has continued to reduce the number of faults in the UK copper network, delivering a 3.7% reduction compared with last year despite very challenging weather conditions in Q4. Fewer network faults combined with improved operational planning has helped us to keep our on time repair performance above 80%.

As we continue to improve our service levels, fewer customers need to contact us about their service and we have seen a 10% reduction in service contacts this quarter compared to Q4 2016/17. For customers who need to call us we are continuing to focus on reducing the time it takes to get through with BT Consumer wait times reducing by over a minute to 41 seconds compared to Q4 2016/17. We know that we must continue to improve Plusnet's performance in this area and we have reduced wait times by over four and a half minutes to 343 seconds between Q3 and Q4 2017/18.

The use of our digital channels continues to grow, with an increase of over 20% this year in the number of BT Consumer customers who have chosen to contact us using online chat compared to Q4 2016/17 and a 60% increase in downloads of the My BT app compared to Q4 2016/17. Our Wholesale customers are also using our digital channels more with nearly all Wholesale Ethernet orders being taken online.

During the quarter, EE won the 'Best Network Performance' award for the fifth year in a row at the Mobile News Awards, whilst Plusnet's four uSwitch 2018 awards included the award for 'Best Value SIM'.

EE have again had some of the lowest levels of complaints about their mobile products according to the latest set of Ofcom results. However we're disappointed that complaints about BT and Plusnet have risen compared to the July-September period. We are determined to return to the long term trend in complaints reduction across all of our brands.

Our Ethernet delivery performance has continued to improve. On average, it now takes fewer than 35 working days for Openreach to provide an Ethernet connection, compared with our MSL of 40 working days, an improvement of 40% compared with Q4 2016/17.

Overall, our focus on customer experience has led to an improved performance across 2017/18. We realise there are still many areas in which we can improve and will continue to invest in customer experience to achieve this.

[1] See Glossary on page 2

[2] The spectrum auction bidding cut across the 2017/18 and 2018/19 financial years. Whilst £325m was on deposit with Ofcom at 31 March 2018, we went on to win spectrum for a total price of £304m and the excess deposit balance has since been refunded

[3] Group NPS measures Net Promoter Score in our retail businesses and Net Satisfaction in our wholesale businesses

[4] Measured against Group-wide 'Right First Time' (RFT) index

Invest in integrated network leadership

Mobile

We have launched a new 4G home broadband solution, combining the 4GEE Home Router with a powerful external antenna as an alternative for those in rural communities that have yet to be connected with traditional fixed line broadband access or where customers can only receive slower fixed broadband speeds.

Operationally, our investment in 4G continues, with our geographic coverage reaching 90% of the UK's landmass as we continue to work towards our 95% coverage ambition by the end of December 2020. We expect the rate of coverage growth to reduce as we deploy in hard to reach areas.

Our mobile base is now 29.6m of which 19.6m are on 4G. In Q4 we added 95,000 postpaid mobile customers, taking the postpaid customer base to 17.6m. The number of prepaid customers reduced by 433,000 in Q4 in line with industry trends, taking the base to 5.5m.

In April we secured 40MHz of 3.4GHz spectrum at a cost of £304m allowing us to progress with our 5G plans and strengthening our position as the mobile network leader.

Broadband

Openreach has passed nearly 27.6m premises with its superfast fibre broadband network, which contributed to the Government's success in achieving 95% superfast broadband coverage. Openreach achieved 555,000 fibre broadband net connections in Q4, bringing the number of homes and businesses connected to nearly 9.8m. Ultrafast speeds, using our FTTP and Gfast network, are now available to more than 1.5m premises.

On 15 February, Openreach announced it will hire 3,500 new trainee engineers over the next 12 months to support its Fibre First programme, the largest recruitment drive in Openreach's history. The trainees will join the UK's largest team of telecom engineers working to expand, upgrade, maintain and install new services over the network.

The UK broadband market[1] grew by 100,000 in the quarter, of which our retail share was 2%. Our retail fibre broadband additions increased by 202,000 in Q4 taking our base to 5.7m; 61% of our retail customers are now on fibre.

TV and BT Sport

After its record performance in the third quarter, BT Sport continued to deliver strong viewing figures across all platforms in Q4, up 19% year on year. Performance was driven by the conclusion to England's cricket tour of Australia, the knock out stages of the UEFA Champions League and the Premier League. All of our BT Sport customers are now on a paid tariff, illustrating our commitment to monetise our investment in sport.

During the quarter we were pleased to confirm that BT will continue to show Premier League matches on BT Sport for a further three years from the 2019/20 season, adding to the exclusive line-up of premium European football and rugby that sports fans already enjoy. The rights will cost £295m per season. We also signed a new three-year deal to continue as the exclusive live broadcaster of MotoGP as well as exclusive broadcasting rights for the Vanarama National League for a further three years.

Transform our operating model

We continue to make good progress with the EE integration. At the end of our second year we have achieved run rate savings of £290m. We remain confident that we will achieve our stated objective of £400m by the end of the fourth year. Savings have been generated from renegotiating supplier terms, insourcing a range of activities EE previously had with third parties across technology and business services, rationalising our combined property estate and reducing head office and support employees. Further savings are anticipated from the creation of the single Consumer customer facing unit.

Our previously announced restructuring programme is also on track. At the end of the year, we have incurred costs of £241m, removing over 2,800 roles mainly from managerial and back office areas and achieved savings in the year of £180m.

During the year we have simplified our organisational structure and strengthened our management teams to support a leaner, more agile and focused organisation.

With the combination of *Business and Public Sector* and *Wholesale and Ventures* into Enterprise we now have four clearly defined customer facing units for consumers, enterprise, multi-national customers and fixed access networks. The customer facing units are supported by Technology, Service and Operations who own the architecture and design, build and operate processes across BT. Additionally our corporate functions provide governance, overall management, strategy and transformation, to develop strategy and drive transformation initiatives across BT.

We have also made a number of appointments to the Executive Committee to strengthen our management team. Cathryn Ross, former Chief Executive of Ofwat, leads our regulatory affairs function and the relationship with Ofcom, Michael Sherman, joins us from Boston Consulting Group to lead our strategy and transformation team and Sabine Chalmers joins us from Anheuser-Busch InBev as General Counsel.

[1] DSL and fibre, excluding cable

Key operational metrics

Our key operational metrics are as follows:

Fourth quarter to 31 March	2018	2017
Mobile		
Total mobile	**29.6m**	29.9m
Net adds		
- Postpaid[1]	**95,000**	192,000
- Prepaid[1]	**(433,000)**	(388,000)
Base		
- Postpaid	**17.6m**	16.8m
- Prepaid	**5.5m**	6.9m
Postpaid churn[1]	**1.2%**	1.1%
Broadband		
Total broadband[2]	**20.7m**	20.4m
Openreach fibre net adds[1]	**555,000**	520,000
Openreach fibre base	**9.8m**	7.7m
Premises passed - superfast fibre broadband network	**27.6m**	26.5
- of which premises passed - ultrafast capable	**1.5m**	0.2m
Retail fibre net adds[1]	**202,000**	211,000
Retail fibre base	**5.7m**	4.9m
TV		
Net (losses) adds[1]	**(16,000)**	14,000
Base	**1.74m**	1.75m
Lines		
Openreach	**25.1m**	25.2m
Lines sold through BT lines of business	**12.8m**	13.3m
Revenue generating units per customer		
BT Consumer[1]	**2.03**	1.98
Average revenue per user (ARPU)		
BT Consumer (rolling 12 month basis)	**£41.7**	£39.9
Mobile postpaid[1]	**£26.0**	£26.3
Mobile prepaid[1]	**£4.8**	£4.4
Order intake (rolling 12 month basis)		
Business and Public Sector	**£3,391m**	£3,369m
Global Services	**£3,845m**	£4,604m
Wholesale and Ventures	**£1,418m**	£1,956m

[1] Quarterly performance
[2] DSL and fibre, excluding cable

OTHER DEVELOPMENTS

Regulation

Wholesale Local Access (WLA) Market Review

In March 2018, Ofcom issued its final statement on the Wholesale Local Access (WLA) Market Review. The key features in the new regulation, running from 2018 to 2021, are a charge control for Openreach's 40/10 GEA fibre product for the first time, continued price control on the MPF copper product, the removal of the margin squeeze test on fibre broadband and extended quality of service measure for all access products. BT welcomed Ofcom's stated intention to support investment in a full fibre network. It remains important for us to secure a fair return on investment. The direct adverse impact on Openreach's revenue and profit from directly charge controlled products is expected to be £80m-£120m in 2018/19. We expect additional impacts on Openreach's cost base as a result of meeting the more demanding minimum service levels required in WLA markets and we anticipate a further adverse financial impact as a result of market pressure on the wholesale prices of other products not directly charge controlled. The net impact at the Group level will depend on the retail market dynamics. We anticipate some of the price reductions will flow through to end customers.

Wholesale Broadband Access (WBA) Market Review

In June 2017, Ofcom issued a consultation on WBA noting that BT has significant market power in approximately 2% of premises and therefore proposed to remove the charge control on WBA prices. We responded to Ofcom's consultation and welcomed their recognition that competition is effective for 98% of UK premises. Ofcom have delayed the release of their final conclusions, subject to approval by the European Commission. We expect the final statement in July 2018.

Future Telecoms Infrastructure Review

In late January, we submitted our input to the DCMS on the Future Telecoms Infrastructure Review and we continue to engage with the Government and others on this issue. A report, to be published by the Government in summer 2018, will identify options available to promote an attractive and stable environment for investment.

Dark Fibre Access

In April 2018, Ofcom released a statement confirming that they will not introduce a temporary remedy requiring BT to provide a restricted form of dark fibre (at and below 1Gbps) in the leased lines markets. This follows Ofcom's consultation at the end of last year, which produced limited interest from stakeholders in a service at low bandwidths. Ofcom have noted that it will be considering an enhanced dark fibre as a remedy in the current Business Connectivity Market Review, due to conclude at the end of March 2019. In the meantime, Openreach's OSA Filter Connect product, offering an alternative to dark fibre, is now available. We have a number of orders already placed and are in detailed discussions with a range of CPs around future deals.

Broadband Universal Service Obligation (USO)

Following the rejection of our voluntary commitment to deliver universal broadband, the Government laid legislation before Parliament, which came into force in April 2018. This sets out the specifications required for the provision of a broadband USO, as well as the eligibility criteria. We expect Ofcom to take two years to review with industry how this new obligation will take effect, including how it will be funded, who will be tasked with delivering it and what costs it is reasonable for USO providers to bear. We are working closely with Government, Ofcom and industry to help deliver the broadband USO.

Spectrum annual licence fees

We were successful in our Court of Appeal challenge to the Fees Regulation issued by Ofcom in 2015 that tripled our annual licence fees for our 1800MHz spectrum. This challenge, which was supported by other mobile network operators, means that we will pay the previous lower fees rate until Ofcom sets the new fees. In setting the new fees Ofcom must abide by the Court's judgment including assessing the impact that increasing fees may have on investment. We expect Ofcom to consult on this in the near future.

Deemed Consent

We have agreed the majority of compensation payments to other CPs in the year. We continue to estimate the total compensation payments will amount to around £300m.

Investigation into our Italian business

During the quarter we completed our assessment of the remediation of our internal controls over financial reporting operating in and over our Italian business. As of 31 March 2018 for the purposes of US Sarbanes-Oxley Act 2002, we have concluded that these controls are now operating effectively. We have filed the local statutory accounts of BT Italia for 2016/17, as well as the tax return.

The UK's exit from the EU

The impacts of Brexit are still uncertain while the UK's future trading and final transition relationship with the EU is being determined. We continued to operate a specific Brexit programme across BT that assesses the impact and implements appropriate response plans. The group's principal risks and uncertainties are disclosed in Note 7.

Outlook

For 2018/19, we expect underlying[1] revenue to be down around 2% year on year mainly as a result of significant regulatory price reductions in Openreach, along with the possible consequential impacts on non charge controlled products. We also expect an impact from our decision to de-emphasise lower margin products, particularly in the enterprise businesses.

Following tougher minimum service levels and significant regulatory price reductions for Openreach coming into effect in 2018/19, along with the possible consequential impacts on non charge controlled products, adjusted[2] Group EBITDA in 2018/19 is expected to be in the range £7.3bn - £7.4bn.

Reported capital expenditure, excluding BDUK clawback, is expected to be around £3.7bn in 2018/19 and then to remain at that level in 2019/20 (on an IAS17 basis – the current leasing standard) as the business increases network investment through Openreach's Fibre First programme and further 4G and 5G mobile network build. Having delivered normalised free cash flow[2] in 2017/18 of £2,973m, almost £200m above the midpoint of our outlook, we expect normalised free cash flow[2] for 2018/19 to be in the range £2.3bn to £2.5bn.

We expect to buy back only a small number of our shares, in connection with our employee share plans, in 2018/19 following the £221m purchased in 2017/18. This was in excess of the £100m initially expected for the 2017/18 buyback as we decided to take advantage of market conditions and the opportunity to purchase a significant number of shares in a single transaction by participating in the Orange offering in the first half of the year.

Dividends

We have a comprehensive transformation programme in place to improve our operational and financial performance in what remains a competitive market environment, and we are increasing investment to drive convergence and sustain our network leadership. We are confident in our strategy and the benefits we expect from the decisive actions we are taking to strengthen our competitive position.

However, given the current market and regulatory headwinds and our investment plans, the Board has decided to hold the dividend unchanged for this year at 15.4p per share. The Board also expects to hold the dividend unchanged in respect of the next two financial years, given our outlook for earnings and cash flow over this period.

The Board remains committed to our dividend policy, which is to maintain or grow the dividend each year whilst reflecting a number of factors including underlying medium term earnings expectations and levels of business reinvestment.

As announced at Q2 2017/18, the interim dividend per share in 2018/19 and future years will be fixed at 30% of the prior year's full dividend per share.

Subject to shareholder approval, the final dividend will be paid on 3 September 2018 to shareholders on the register at 10 August 2018. The ex-dividend date is 9 August 2018. The final dividend, amounting to approximately £1,044m (2016/17: £1,050m), will be recognised as an appropriation of retained earnings in the quarter to 30 September 2018.

Principal risks and uncertainties (Note 7 to the condensed consolidated financial statements)

The group's principal risks and uncertainties are disclosed in Note 7.

[1] Including transit, but excluding specific items, foreign exchange movements and the effect of acquisitions and disposals
[2] See Glossary on page 2

CHANGES TO REPORTING

IFRS 15

We will report our financial statements under IFRS 15 from the first quarter of 2018/19. We will adopt IFRS 15 on a modified retrospective basis in our 2018/19 financial statements. Accordingly we will not restate prior year comparatives for the effect of IFRS 15 but will instead restate our 1 April 2018 opening reserves for the full cumulative impact of adopting this standard. We will provide a reconciliation of our primary financial statements under IAS 18 to our primary financial statements under IFRS 15 in our Annual Report & Form 20-F 2019. We are in the process of finalising the impact of the standard including the final transition adjustment to retained earnings. We have estimated that the likely impact on transition at 1 April 2018 will produce a cumulative increase in retained earnings of between £1.1bn and £1.5bn before tax. The corresponding impact will be recorded as a contract asset and will lead to an additional one-off cash tax payment split equally between 2018/19 and 2019/20. We will provide detailed analysis of the impact of IFRS 15 including proforma restated results for prior quarters by business during Q1 2018/19.

Customer facing units

We previously announced the combination of our BT Consumer and EE businesses from 1 April 2018 and have recently announced the bringing together of our *Business and Public Sector* and *Wholesale and Ventures* businesses to form a new business unit, Enterprise, and will be reported as such from 1 October 2018. These changes will allow us to accelerate transformation, simplify our operating model and strengthen accountabilities. All customer facing units have operated separately during 2017/18 and are therefore reported separately.

Key performance indicators

As announced at Q2, we intend to refresh the operational KPIs that we provide from Q1 2018/19. This will simplify and better align them to the internal metrics that we use to manage the business, and therefore improve visibility of the drivers of BT's operational performance.

Group results for the fourth quarter to 31 March 2018

Income statement

Reported revenue was down 3% to £5,967m. This includes a £33m adverse impact from foreign exchange movements and a £45m reduction in transit revenue. Underlying[1] revenue excluding transit was down 1.4%.

Reported operating costs of £4,892m were down 11%. Adjusted[1] operating costs, before depreciation and amortisation, of £3,884m were down 4%, reflecting the decline in volumes, cost savings and lower customer investment costs partly offset by higher business rates and pension costs. This also includes a £26m favourable impact from foreign exchange movements and a £42m decrease in transit costs.

Adjusted[1] EBITDA of £2,083m was up 1%. Depreciation and amortisation of £889m was broadly flat. Reported net finance expense was £203m while adjusted[1] net finance expense was £148m. Reported profit before tax was up 98% at £872m mainly due to higher specific items in the prior year. Adjusted[1] profit before tax was up 1% at £1,046m.

The effective tax rate on profit before specific items was 16.6% (Q4 2016/17: 18.6%), with the rate being lower than the standard UK corporation tax rate (19%) principally due to a favourable settlement of historic tax issues in India in Q4.

Reported EPS was 7.3p, up 92%. Adjusted[1] EPS of 8.8p was up 5%. These are based on a weighted average number of shares in issue of 9,909m (Q4 2016/17: 9,945m).

Specific items (Note 4 to the condensed consolidated financial statements)

Specific items[1] resulted in a net charge after tax of £150m (Q4 2016/17: £459m). The main components include restructuring costs of £69m (Q4 2016/17: £nil), EE integration costs of £11m (Q4 2016/17: £123m), property rationalisation costs of £28m (Q4 2016/17: £nil) and interest expense on pensions of £55m (Q4 2016/17: £51m). Our prior year also included provisions for regulatory risks of £400m, primarily relating to Deemed Consent.

Capital expenditure

Capital expenditure was £951m (Q4 2016/17: £1,022m)[2]. The capital expenditure decrease of £71m was a result of lower year on year BDUK net grant funding deferrals, decreasing our fixed network investment total by £67m at £430m. Other capital expenditure components were flat with £237m spent on customer driven investments and £233m on systems and IT.

Our base-case assumption for take-up in Broadband Delivery UK (BDUK) areas has increased to 41% of total premises passed and we will continue to assess this each quarter. Under the terms of the BDUK programme, we have an obligation to repay or re-invest grant funding depending on factors including the level of customer take-up achieved. While we have recognised grant funding of £35m (Q4 2016/17: £41m) in line with network build in the quarter, re-invested grant deferral of £16m (2016/17: £nil), we have also deferred a further £30m (Q4 2016/17: £120m) to reflect higher take-up levels on a number of contracts. During the quarter we also repaid grant funding deferral of £2m, giving a balance at 31 March 2018 of £536m (Q4 2016/17: £446m).

Free cash flow

Net cash inflow from operating activities was down £845m at £746m, including £601m higher pension deficit payments in the quarter and £325m of payments in respect of the acquisition of spectrum. Normalised free cash flow[1], which excludes these pensions and spectrum payments, was up £192m at £1,026m mainly driven by favourable working capital movements. A reconciliation to our free cash flow is shown in Additional Information on page 46.

The net cash cost of specific items was £119m (Q4 2016/17: £59m). This includes restructuring payments of £66m (Q4 2016/17: £13m), regulatory payments of £25m (Q4 2016/17: £3m) and EE integration cost payments of £6m (Q4 2016/17: £21m). After specific items and a £47m (Q4 2016/17: £11m) cash tax benefit from pension deficit payments, free cash was an inflow of £629m (Q4 2016/17: £786m).

[1] See Glossary on page 2

[2] This consists of gross expenditure of £972m (Q4 2016/17: £943m) which has been reduced by net grant funding of £21m (Q4 2016/17: £79m net grant deferral) mainly relating to our activity on the BDUK programme.

Net debt and liquidity

Net debt[1] was £9,627m at 31 March 2018, £704m higher than at 31 December 2017. The increase in the quarter reflects pension deficit payments of £0.9bn, dividends paid of £0.5bn and tax payments of £0.2bn. These were offset by reported free cash flows of £0.6bn.

At 31 March 2018 the group held cash and current investment balances of £3.0bn. We repaid a £0.5bn ($1.1bn) loan on 16 January 2018. At 31 March 2018 short term borrowings of £2.0bn include term debt of £1.4bn repayable during 2018/19. We also held £0.6bn collateral for open mark to market positions and overdrafts.

Our £2.1bn facility, which matures in September 2021, remains undrawn at 31 March 2018.

Pensions (Note 2 to the condensed consolidated financial statements)

The IAS 19 net pension position at 31 March 2018 was a deficit of £5.3bn net of tax (£6.4bn gross of tax), compared with £7.9bn net of tax (£9.5bn gross of tax) at 31 December 2017. The decrease in the deficit mainly reflects a refinement to the model used to calculate the discount rate (£2.1bn) and pension deficit payments (£0.9bn) over the quarter.

IAS 19 requires that the discount rate is determined by reference to market yields at the reporting date on high quality corporate bonds. The currency and term of these should be consistent with the currency and estimated term of the pension obligations. The assumption is calculated by applying the projected BTPS benefit cash flows to a corporate bond yield curve constructed based on the yield on AA-rated corporate bonds. In setting the yield curve, judgement is required on the selection of appropriate bonds to be included in the universe and the approach used to then derive the yield curve. At 31 March 2018, the discount rate model used to select bonds and derive the yield curve was updated to better reflect yields on corporate bonds over the life of the Scheme. A key difference is that the revised model excludes bonds which have either an implicit or explicit Government guarantee, which is more consistent with the requirements of IAS19, and reflects developing practice. Both the old and revised models are standard models developed by our external actuary. The impact of this change is a £2.1bn reduction in the BTPS liabilities.

BT and the Trustee of the BT Pension Scheme (BTPS) have reached agreement on the 2017 triennial funding valuation and recovery plan. The funding deficit at 30 June 2017 is £11.3bn, with the increase from the 2014 valuation mostly due to a fall in long-term real interest rates.

The deficit will be met over a 13 year period, maintaining the remaining period of the previous recovery plan. The deficit contributions have three components:

- Payments within the three years to 31 March 2020 totalling £2.1bn, in line with the amount due under the previous recovery plan. £850m of this was paid in March 2018 and the remaining £1,250m is to be paid by 30 June 2019.
- A further £2.0bn contribution, due to be funded from the proceeds of the issuance of bonds, which will be held by the BTPS. The bonds will be issued as soon as practicable.
- For the 10 years from 1 April 2020 to 31 March 2030, annual payments of around £900m.

An important aspect of the agreement relates to lowering the level of investment risk in the Scheme, as well as continuing to de-risk in the future. Steps have already been taken to move 15% of the assets from growth assets, such as equities and property, to lower-risk investments, such as bonds, providing a substantial reduction in risk for the Scheme and BT.

Further details are set out in a separate announcement.

Over the quarter, we also announced the closure of Sections B and C of the BTPS (representing over 99% of the BTPS active membership) to future benefit accrual, which is now expected to take effect from 30 June 2018. Benefits accrued in the BTPS for service prior to 1 July 2018 will remain preserved within the BTPS and subject to revaluation in line with the BTPS rules and relevant legislation. Over the coming year, we will establish a new 'hybrid' pension arrangement for non-management employees (‘team members’) leaving the BTPS. It is intended that this new arrangement will combine elements of both defined benefit and defined contribution pension schemes and be designed to support those team members on lower pay scales, giving them another option for their retirement savings. We will also increase our standard maximum contribution rate to the BTRSS, our main defined contribution scheme, to 10%. These changes will reduce the build-up of future defined benefit pension risk.

[1] See Glossary on page 2

Group results for the year to 31 March 2018

Income statement

Reported revenue was down 1% to £23,723m. This includes an £87m favourable impact from foreign exchange movements and a £157m reduction in transit revenue. Underlying[1] revenue excluding transit was down 1.0%.

Reported operating costs of £20,342m were down 3%. Adjusted[1] operating costs, before depreciation and amortisation, of £16,241m were down 1%, reflecting the decline in volumes and cost savings partially offset by increased investment in mobile devices, customer experience, higher business rates and pension costs. This includes an £82m adverse impact from foreign exchange movements and a £153m reduction in transit costs.

Adjusted[1] EBITDA of £7,505m was down 2%. Depreciation and amortisation was broadly flat at £3,514m. Reported net finance expense was £764m while adjusted[1] net finance expense was £546m. Reported profit before tax was up 11% at £2,616m due to higher specific items in the prior year. Adjusted[1] profit before tax was down 2% at £3,444m.

The effective tax rate on profit before specific items for the year is 19.5%, being higher than the standard UK corporation tax rate (19%) principally due to disallowable costs and a 0.4% increase in respect of our initial estimate of the impact of US tax reforms.

Reported EPS was 20.5p, up 7%. Adjusted[1] EPS of 27.9p was down 3%. These are based on a weighted average number of shares in issue of 9,911m (2016/17: 9,938m).

Specific items (Note 4 to the condensed consolidated financial statements)

Specific items[1] resulted in a net charge after tax of £741m (2016/17: £961m). The main components include EE acquisition warranty claims of £225m (2016/17: £nil), restructuring costs of £241m (2016/17: £nil), EE integration costs of £46m (2016/17: £215m), regulatory costs of £26m (2016/17: £479m) and interest expense on pensions of £218m (2016/17: £209m). Our prior year also included a £260m charge in relation to our investigation into our Italian business.

Capital expenditure

Capital expenditure was £3,522m (2016/17: £3,454m)[2]. The capital expenditure increase of £68m was primarily a result of increased investment in our fixed and mobile networks which was up £77m at £1,728m. Other capital expenditure components were down £9m with £980m spent on customer driven investments and £687m on systems and IT.

For the year we have recognised grant funding of £168m (2016/17: £160m), in line with network build, re-invested grant funding of £18m (2016/17: £nil) and we have also deferred £112m (2016/17: £188m) following our review of the level of customer take-up to reflect higher take-up levels on a number of contracts. Grant funding deferral repaid throughout the year was £4m, giving a balance at 31 March 2018 of £536m (Q4 2016/17: £446m).

Free cash flow

Net cash inflow from operating activities was down £1,247m at £4,927m, including £598m higher pension deficit payments in the year, £623m of cash flows relating to specific items and £325m of payments in respect of the acquisition of spectrum. Normalised free cash flow[1], which excludes these pensions, specifics and spectrum payments, was up £191m at £2,973m mainly driven by favourable working capital movements. A reconciliation to our free cash flow is shown in Additional Information on page 46.

The net cash cost of specific items was £828m (2016/17: £205m). This includes regulatory payments of £267m (2016/17: £3m), restructuring payments of £193m (2016/17: £51m) and EE integration cost payments of £54m (2016/17: £72m). After specific items and a £109m (2016/17: £110m) cash tax benefit from pension deficit payments, free cash was an inflow of £1,929m (2016/17: £2,687m).

[1] See Glossary on page 2

[2] This consists of gross expenditure of £3,596m (2016/17: £3,426m) which has been reduced by net grant funding of £74m (2016/17: £28m net grant deferral) mainly relating to our activity on the Broadband Delivery UK (BDUK) programme.

Operating review

BT Consumer

	Fourth quarter to 31 March				Year to 31 March			
	2018	2017	Change		**2018**	2017	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,289**	1,246	43	3	**5,066**	4,934	132	3
Operating costs	**994**	985	9	1	**4,043**	3,922	121	3
EBITDA	**295**	261	34	13	**1,023**	1,012	11	1
Depreciation & amortisation	**57**	53	4	8	**216**	209	7	3
Operating profit	**238**	208	30	14	**807**	803	4	-
Capital expenditure	**92**	72	20	28	**291**	237	54	23
Normalised free cash flow	**243**	159	84	53	**635**	709	(74)	(10)

Revenue for the quarter and full year increased 3% driven by growth in Broadband, TV, Sport and Mobile, partially offset by line losses. BT Consumer 12-month rolling ARPU increased 5% to £41.7 per month, underpinned by the impact of price increases from January 2018 and fibre customer growth. Revenue generating units[1] per customer grew 3% to 2.03.

Operating costs in Q4 increased 1% due to higher broadband costs driven by an increase in fibre customers. Along with the increase in revenue this resulted in an EBITDA increase of 13% for Q4 and 1% for the year. Operating profit was up 14% for Q4. Depreciation and amortisation was up 8% for Q4.

Normalised free cash flow in Q4 was up 53% driven by the timing of supplier payments partly offset by additional capex investment. For the year capital expenditure was up 23% and normalised free cash flow was down 10% as capital expenditure and working capital phasing offset EBITDA growth and timing of major sports rights deposits.

Across BT's retail divisions we added 2,000 broadband customers in Q4, as we continue to focus on value over volume. This is demonstrated by the addition of 202,000 superfast fibre customers in Q4, taking our fibre customer base to 5.7m, with 61% of our broadband customers now on fibre.

We continue to see encouraging signs from our investment in customer experience as average call waiting times are more than one minute shorter than last year at 41 seconds and Ofcom complaints are down by 18% for Broadband compared to last year.

In Q4 we were pleased to confirm that BT will continue to show Premier League matches on BT Sport for a further three years from the 2019/20 season, adding to the exclusive line-up of premium European football and rugby that sports fans already enjoy. The rights will cost £295m per season.

BT Sport continued to deliver strong viewing figures across all platforms in Q4, up 19% year on year. Performance was driven by the conclusion to England's cricket tour of Australia, the knock out stages of the UEFA Champions League and the Premier League.

[1] Revenue generating units are voice lines, broadband, TV and mobile

EE

	Fourth quarter to 31 March				Year to 31 March			
	2018	2017	Change		**2018**	2017	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,320**	1,259	61	5	**5,294**	5,090	204	4
Operating costs	**887**	943	(56)	(6)	**3,941**	3,934	7	-
EBITDA	**433**	316	117	37	**1,353**	1,156	197	17
Depreciation & amortisation	**201**	181	20	11	**776**	780	(4)	(1)
Operating profit	**232**	135	97	72	**577**	376	201	53
Capital expenditure	**178**	164	14	9	**628**	616	12	2
Normalised free cash flow	**236**	107	129	121	**754**	570	184	32

Revenue for Q4 was up 5% with a 6% increase in postpaid revenue and a 12% increase in fixed broadband revenues, partially offset by a 10% reduction in prepaid revenue. This is the sixth consecutive quarter of revenue growth. For the year, revenue was up 4%.

Operating costs were £887m in Q4, down 6%. As expected, EBITDA recovered strongly in Q4, up 37% at £433m, as seasonal customer behaviour reduced customer investment costs, and grew 17% over the year. Depreciation and amortisation was £201m and therefore operating profit was £232m for Q4.

Capital expenditure was £178m in Q4, up 9%, driven by increased network spend. Normalised free cash flow was £129m higher, reflecting increased EBITDA and working capital movements partially offset by higher capex spend. For the year capital expenditure was up 2% and normalised free cash flow was up 32%, driven by EBITDA growth.

At the end of the Q4, the total BT Group mobile base was 29.6m. Following a very strong third quarter performance, we added 95,000 postpaid mobile customers, taking the postpaid base to 17.6m. Group postpaid churn was 1.2% reflecting a continuing high level of customer loyalty. Our prepaid customers fell by 433,000, in line with industry trends, taking the base to 5.5m. Our 4G customer base reached 19.6m. Monthly mobile ARPU was £26.0 for postpaid customers, down 1% due to the increased popularity of SIM-only tariffs, and £4.8 for prepaid customers across the Group.

Our 4G geographic coverage reaches 90% of the UK's landmass as we continue to work towards our 95% coverage ambition by the end of December 2020. We expect the rate of coverage growth to reduce as we deploy in hard to reach areas. EE continues to be recognised as the UK's leading mobile network in independent surveys, with the latest RootMetrics survey naming EE as the leading mobile network for the ninth consecutive time.

We are continuing to use technology to improve customer experience, and have introduced video-calling in our stores and call centres to connect customers with technical experts.

Business and Public Sector

	Fourth quarter to 31 March				Year to 31 December			
	2018	2017	Change		**2018**	2017	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,157**	1,222	(65)	(5)	**4,563**	4,758	(195)	(4)
- underlying excluding transit				(5)				(4)
Operating costs	**795**	831	(36)	(4)	**3,145**	3,230	(85)	(3)
EBITDA	**362**	391	(29)	(7)	**1,418**	1,528	(110)	(7)
Depreciation & amortisation	**93**	88	5	6	**365**	352	13	4
Operating profit	**269**	303	(34)	(11)	**1,053**	1,176	(123)	(10)
Capital expenditure	**83**	89	(6)	(7)	**304**	275	29	11
Normalised free cash flow	**340**	433	(93)	(21)	**1,136**	1,293	(157)	(12)

Both revenue and underlying revenue excluding transit decreased 5% for Q4 and 4% for the year. This was due to the ongoing decline in fixed voice and lower equipment sales resulting from our decision to move away from lower margin business and the remaining impact of a small number of large public sector contracts coming to an end, but was partially offset by continued growth in IP and Mobile. This resulted in SME revenue being down 2%, Corporate revenue down 5% and Public Sector and Major Business revenue decreasing 9%.

Foreign exchange movements had a £3m positive impact on Republic of Ireland revenue, where underlying revenue excluding transit was up 3% due to the impact of one-off equipment sales in Q4.

Operating costs were 4% lower driven mainly by lower voice product input and legacy contract costs in the prior year. In Q4, our cost transformation programmes have resulted in more than 300 leavers which will provide a benefit to the cost base in the coming financial year. EBITDA declined 7% for both Q4 and the year following the reduction in revenue. Depreciation and amortisation was 6% higher and operating profit was 11% lower.

Capital expenditure decreased £6m for Q4 and increased £29m for the year. Normalised free cash flow was £93m lower in Q4 reflecting the £29m decrease in EBITDA and the timing of working capital inflows. For the year normalised free cash flow was £157m lower, driven by the decrease in EBITDA and revised working capital profile due to wind down of legacy government contracts within Public Sector and Major Business, partly offset by increased capital expenditure.

Order intake decreased 20% to £0.8bn for Q4 and was up 1% to £3.4bn on a rolling 12-month basis, due to the signing of a large wholesale contract in Republic of Ireland in Q1.

In Q4 we launched Ultrafast Fibre Broadband, powered by Gfast technology, with the initial roll out focusing on SME customers. This offers download speeds of up to 314Mbps with a minimum speed guarantee, 24/7 technical help and a next working day fix promise.

Global Services

	Fourth quarter to 31 March				Year to 31 March			
	2018	2017	Change		**2018**	2017	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,241**	1,422	(181)	(13)	**5,013**	5,479	(466)	(9)
- underlying excluding transit				(8)				(8)
Operating costs	**1,104**	1,218	(114)	(9)	**4,579**	4,984	(405)	(8)
EBITDA	**137**	204	(67)	(33)	**434**	495	(61)	(12)
Depreciation & amortisation	**105**	108	(3)	(3)	**424**	439	(15)	(3)
Operating profit	**32**	96	(64)	(67)	**10**	56	(46)	(82)
Capital expenditure	**86**	101	(15)	(15)	**278**	361	(83)	(23)
Normalised free cash flow	**220**	95	125	132	**118**	(245)	363	n/m

Revenue for Q4 was down 13% including a £37m negative impact from foreign exchange movements and a £42m decline in transit revenue. Underlying revenue excluding transit was down 8%. For the year revenue was down 9% including a £68m positive impact from foreign exchange movements and a £134m decline in transit revenue. Underlying revenue excluding transit was down 8% for the year.

In Q4 we continued to experience lower general trading across all our regions. Underlying revenue excluding transit was down 8% in the UK and down 8% in Continental Europe both reflecting lower IP Exchange volumes and equipment sales in line with our strategy to reduce low margin business. Underlying revenue was down 9% in the Americas[1] which also included the ongoing impact of a major customer insourcing services in the US and a large contract in Brazil that has now completed. In AMEA[2] underlying revenue excluding transit was down 4%.

Operating costs were down 9% in Q4 and down 8% for the year mainly reflecting the decline in IP Exchange volumes and equipment sales. EBITDA was down £67m for Q4 reflecting certain one-off items in the current year and the prior year one-off benefit of approximately £25m arising from a true up of the annual bonus. Excluding these one off items, EBITDA was marginally down. For the year EBITDA was down £61m.

Depreciation and amortisation was down 3% in Q4. Operating profit for Q4 was £32m.

Capital expenditure was down 15% for Q4 and 23% for the year as we execute our strategy to become a more asset light business. Normalised free cash flow was an inflow of £220m for Q4, up £125m, and £118m for the year, up £363m, both mainly due to the prior year impact of unwinding improper working capital transactions in our Italian business

Our total order intake was £1.0bn in Q4, up 12%. On a rolling 12-month basis it was £3.8bn, down 16% year on year, reflecting a shift in buyer behaviour, including shorter contract lengths and increased usage-based terms.

Last year we announced a strategic review of our business which we're calling Digital GS. We pressed ahead with a restructuring programme to help us compete more effectively, especially in Europe. Our business will focus on a named set of accounts and from April 2018 we implemented a new global account management model. We launched a new service, BT Cloud Connect Direct for IBM, to provide global businesses with direct access to IBM Cloud via our network. We built a Malware Information Sharing Platform (MISP) which enables data to be shared in a secure and trusted way with its partners and other ISPs.

[1] United States & Canada and Latin America (Americas)
[2] Asia Pacific, the Middle East and Africa (AMEA)

Wholesale and Ventures

	Fourth quarter to 31 March				Year to 31 March			
	2018	2017	Change		**2018**	2017	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**506**	541	(35)	(6)	**2,009**	2,109	(100)	(5)
- underlying excluding transit				(6)				(4)
Operating costs	**302**	321	(19)	(6)	**1,255**	1,275	(20)	(2)
EBITDA	**204**	220	(16)	(7)	**754**	834	(80)	(10)
Depreciation & amortisation	**78**	79	(1)	(1)	**311**	306	5	2
Operating profit	**126**	141	(15)	(11)	**443**	528	(85)	(16)
Capital expenditure	**69**	72	(3)	(4)	**229**	226	3	1
Normalised free cash flow	**151**	147	4	3	**509**	587	(78)	(13)

Revenue for Q4 was down 6% with underlying revenue excluding transit also down 6% reflecting declines in our legacy products. For the year, revenue was down 5% with underlying revenue excluding transit down 4%.

In Q4 Managed solutions revenue was down 8% primarily due to continued lower revenue from our Mobile Ethernet Access Services contracts. Data and Broadband revenue was down 10% due to the continuing decline in legacy Partial Private Circuits as well as both lower volumes and intensifying price competition in the wholesale broadband market. While wholesale Ethernet volumes grew, this was partly offset by lower pricing. Voice revenue was down 10% mainly driven by lower volumes.

Our Ventures businesses performed well with revenue growth in Q4 of 6% to £89m. This performance was mainly driven by growth in bulk messaging services and Fleet Solutions. We continue to rollout InLinkUK units with 138 installed as at the end of Q4. Mobile revenue of £56m was broadly in line with last year.

Operating costs were down 6% and EBITDA decreased 7% in Q4 reflecting the volume decline, particularly in higher margin legacy services. For Q4 depreciation and amortisation was down 1%, and operating profit decreased 11%. For the year EBITDA was down 10%.

Capital expenditure was down 4% in Q4. Normalised free cash flow was £151m for Q4, up 3% on last year. For the year capital expenditure was up 1% and normalised free cash flow was £509m reflecting the decline in EBITDA.

Our Q4 order intake of £504m was up 47% for Q4, including a new four-year product deal with KCOM. On a 12-month rolling basis order intake was down 28% to £1.4bn as last year benefitted from the five-year wholesale mobile network services deal with Virgin Media and the 10-year InLinkUK advertising contract.

Openreach

	Fourth quarter to 31 March				Year to 31 March			
	2018	2017	Change		**2018**	2017	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,289**	1,289	-	-	**5,123**	5,098	25	-
Operating costs	**648**	594	54	9	**2,603**	2,465	138	6
EBITDA	**641**	695	(54)	(8)	**2,520**	2,633	(113)	(4)
Depreciation & amortisation	**334**	355	(21)	(6)	**1,360**	1,369	(9)	(1)
Operating profit	**307**	340	(33)	(10)	**1,160**	1,264	(104)	(8)
Capital expenditure	**394**	470	(76)	(16)	**1,658**	1,573	85	5
Normalised free cash flow	**229**	296	(67)	(23)	**1,048**	1,349	(301)	(22)

Revenue was broadly flat for Q4 and the year. For Q4 we had growth of 16% in fibre broadband revenues offset by lower copper line rental and the negative impact of regulatory and commercial price changes of £14m and £29m respectively. For the year we had growth of 22% in fibre broadband revenues offset by lower copper line rental. This also includes regulatory and commercial price reductions of £65m and £71m respectively.

Operating costs were 9% higher in Q4 and 6% in the year mainly driven by an increase in business rates charged on network assets, higher pension charges and investment in new recruits and upskilling our existing engineers to improve customer experience, partly offset by efficiencies. EBITDA was down 8% in Q4 and 4% in the year. Depreciation and amortisation was down 6% in Q4 and 1% in the year due to timing of completing capital investments. As a result, operating profit was down 10% in Q4 and 8% in the year.

Capital expenditure was £394m, down £76m or 16% in Q4, driven by lower year on year BDUK net grant funding deferrals[1], partly offset by an increase in our investment in fibre broadband speed and coverage. Full year capital expenditure was 5% higher driven by higher underlying investment in fibre broadband speed and coverage, partly offset by the lower year on year BDUK net grant funding deferrals[2].

Normalised free cash flow was down 23% in Q4 and 22% in the year due to the increased operating costs and higher underlying capital expenditure.

We have seen encouraging results during the year from our investment in customer experience. All 60 copper minimum service levels set by Ofcom that were due have been exceeded and we have seen a 3.7% reduction in our copper network faults compared with the same period last year. We continue to engage with Ofcom on the new Ethernet minimum service level measures that apply from December 2017 to March 2019.

We continue to extend the reach of fibre broadband which is now available to nearly 27.6m premises passed by our superfast fibre broadband network. We have now passed 1m premises with our Gfast network and more than 560,000 with our FTTP network meaning more than 1.5m premises are able to connect to an ultrafast (100Mbps+) service. We achieved a record high 2.1m fibre broadband net connections during the year, with around 555,000 in Q4, and now have nearly 9.8m customers connected to fibre (Q4 2016/17: 7.7m).

We started our biggest ever recruitment drive with plans to take on 3,500 new trainee engineers. This will help deliver our Fibre First programme announced in the quarter, within which we have committed to make our FTTP network available to three million premises by the end of 2020 and 10m by the mid-2020s with the right conditions.

The physical line base reduced by 121,000 in the year, with the number of lines ceased being less than expected due to strong fibre demand which reduced the level of churn to alternative networks across the year.

[1]Capital expenditure in Q4 is net of BDUK gross grant funding of £48m (Q4 2016/17: £40m) that was partially offset by an increase in our grant funding deferral of £30m (Q4 2016/17: £119m).
[2]Capital expenditure for the year is net of BDUK gross grant funding of £179m (2016/17: £159m) that was partially offset by an increase in our grant funding deferral of £110m (2016/17: £185m).

Condensed consolidated financial statements

Group income statement

For the fourth quarter to 31 March 2018

	Before specific items	Specific items	Total
	£m	£m	£m
Revenue	5,967	-	**5,967**
Operating costs	(4,773)	(119)	**(4,892)**
Operating profit	1,194	(119)	**1,075**
Finance expense	(152)	(55)	**(207)**
Finance income	4	-	**4**
Net finance expense	(148)	(55)	**(203)**
Share of post tax profit (loss) of associates and joint ventures	-	-	**-**
Profit before tax	1,046	(174)	**872**
Tax	(174)	24	**(150)**
Profit for the period	872	(150)	**722**
Earnings per share			
- basic	8.8 p		**7.3 p**
- diluted	8.7 p		**7.2 p**

Group income statement

For the fourth quarter to 31 March 2017

	Before specific items	Specific items	Total
	£m	£m	£m
Revenue	6,128	(6)	6,122
Operating costs	(4,950)	(534)	(5,484)
Operating profit	1,178	(540)	638
Finance expense	(148)	(51)	(199)
Finance income	3	-	3
Net finance expense	(145)	(51)	(196)
Share of post tax (loss) of associates and joint ventures	(2)	-	(2)
Profit before tax	1,031	(591)	440
Tax	(192)	132	(60)
Profit for the period	839	(459)	380
Earnings per share			
- basic	8.4p		3.8p
- diluted	8.4p		3.8p

Group income statement

For the year to 31 March 2018

	Before specific items	Specific items	Total
	£m	£m	£m
Revenue	23,746	(23)	**23,723**
Operating costs	(19,755)	(587)	**(20,342)**
Operating profit	3,991	(610)	**3,381**
Finance expense	(558)	(218)	**(776)**
Finance income	12	-	**12**
Net finance expense	(546)	(218)	**(764)**
Share of post tax profit (loss) of associates and joint ventures	(1)	-	**(1)**
Profit before tax	3,444	(828)	**2,616**
Tax	(671)	87	**(584)**
Profit for the year	2,773	(741)	**2,032**
Earnings per share			
- basic	27.9 p		**20.5 p**
- diluted	27.8 p		**20.4 p**

Group income statement

For the year to 31 March 2017

	Before specific items	Specific items	Total
	£m	£m	£m
Revenue	24,082	(20)	24,062
Operating costs	(19,947)	(948)	(20,895)
Operating profit	4,135	(968)	3,167
Finance expense	(607)	(210)	(817)
Finance income	13	-	13
Net finance expense	(594)	(210)	(804)
Share of post tax profit (loss) of associates and joint ventures	(9)	-	(9)
Profit before tax	3,532	(1,178)	2,354
Tax	(663)	217	(446)
Profit for the year	2,869	(961)	1,908
Earnings per share			
- basic	28.9p		19.2p
- diluted	28.7p		19.1p

Group statement of comprehensive income

For the fourth quarter and year to 31 March

	Fourth quarter to 31 March		Year to 31 March	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Profit for the period	**722**	380	**2,032**	1,908
Other comprehensive income (loss)				
Items that will not be reclassified to the income statement:				
Remeasurements of the net pension obligation	**2,336**	1,726	**2,160**	(2,789)
Tax on pension remeasurements	**(388)**	(319)	**(346)**	416
Items that have been or may be reclassified subsequently to the income statement:				
Exchange differences on translation of foreign operations	**(68)**	(60)	**(188)**	237
Fair value movements on available-for-sale assets	**3**	3	**11**	(3)
Fair value movements on cash flow hedges:				
- net fair value (losses) gains	**(208)**	(124)	**(368)**	884
- recognised in income and expense	**212**	39	**277**	(938)
Tax on components of other comprehensive income that have been or may be reclassified	**(15)**	15	**1**	29
Other comprehensive profit (loss) for the period, net of tax	**1,872**	1,280	**1,547**	(2,164)
Total comprehensive income (loss) for the period	**2,594**	1,660	**3,579**	(256)

Group balance sheet

	31 March 2018	31 March 2017
	£m	£m
Non-current assets		
Intangible assets	14,447	15,029
Property, plant and equipment	17,000	16,498
Derivative financial instruments	1,312	1,818
Investments	53	44
Associates and joint ventures	38	31
Trade and other receivables	317	360
Deferred tax assets	1,243	1,717
	34,410	35,497
Current assets		
Programme rights	272	264
Inventories	239	227
Trade and other receivables	4,014	3,835
Current tax receivable	77	73
Derivative financial instruments	197	428
Investments	3,022	1,520
Cash and cash equivalents	528	528
	8,349	6,875
Current liabilities		
Loans and other borrowings	2,281	2,632
Derivative financial instruments	50	34
Trade and other payables	7,168	7,437
Current tax liabilities	83	197
Provisions	603	625
	10,185	10,925
Total assets less current liabilities	**32,574**	31,447
Non-current liabilities		
Loans and other borrowings	11,994	10,081
Derivative financial instruments	787	869
Retirement benefit obligations	6,371	9,088
Other payables	1,326	1,298
Deferred tax liabilities	1,340	1,240
Provisions	452	536
	22,270	23,112
Equity		
Ordinary shares	499	499
Share premium	1,051	1,051
Own shares	(186)	(96)
Merger reserve	6,647	6,647
Other reserves	534	884
Retained earnings (loss)	1,759	(650)
Total equity	**10,304**	8,335
	32,574	31,447

Group statement of changes in equity

For the year to 31 March

	Share Capital	Share Premium	Own Shares	Merger Reserve	Other Reserves	Retained Earnings	Total Equity
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2016	499	1,051	(115)	8,422	685	(430)	10,112
Profit for the year	-	-	-	-	-	1,908	1,908
Other comprehensive income (loss) before tax	-	-	-	-	1,108	(2,779)	(1,671)
Tax on other comprehensive (loss) income	-	-	-	-	29	416	445
Transferred to the income statement	-	-	-	-	(938)	-	(938)
Comprehensive income (loss)	-	-	-	-	199	(455)	(256)
Transfer to realised profit	-	-	-	(1,775)	-	1,775	-
Dividends to shareholders	-	-	-	-	-	(1,436)	(1,436)
Share-based payments	-	-	-	-	-	57	57
Tax on share-based payments	-	-	-	-	-	(6)	(6)
Net buyback of own shares	-	-	19	-	-	(155)	(136)
At 1 April 2017	499	1,051	(96)	6,647	884	(650)	8,335
Profit for the year	**-**	**-**	**-**	**-**	**-**	**2,032**	**2,032**
Other comprehensive income (loss) before tax	**-**	**-**	**-**	**-**	**(545)**	**2,160**	**1,615**
Tax on other comprehensive (loss) income	**-**	**-**	**-**	**-**	**1**	**(346)**	**(345)**
Transferred to the income statement	**-**	**-**	**-**	**-**	**277**	**-**	**277**
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**(267)**	**3,846**	**3,579**
Dividends to shareholders	**-**	**-**	**-**	**-**	**-**	**(1,524)**	**(1,524)**
Share-based payments	**-**	**-**	**-**	**-**	**-**	**84**	**84**
Tax on share-based payments	**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**
Net buyback of own shares	**-**	**-**	**(90)**	**-**	**-**	**(78)**	**(168)**
Transfer to realised profit	**-**	**-**	**-**	**-**	**(83)**	**83**	**-**
At 31 March 2018	**499**	**1,051**	**(186)**	**6,647**	**534**	**1,759**	**10,304**

Group cash flow statement

For the fourth quarter and year to 31 March

	Fourth quarter to 31 March		Year to 31 March	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Cash flow from operating activities				
Profit before tax	872	440	2,616	2,354
Share-based payments	21	7	84	57
Profit on disposal of subsidiaries and interest in associates	-	-	(1)	(16)
Share of post tax losses of associates and joint ventures	-	2	1	9
Net finance expense	203	196	764	804
Depreciation and amortisation	889	953	3,514	3,572
(Increase) decrease in working capital[1]	(216)	191	(549)	(112)
Provisions, pensions and other non-cash movements[2]	(874)	(29)	(1,029)	57
Cash inflow (outflow) from operating activities[3]	**895**	1,760	**5,400**	6,725
Tax paid	(149)	(169)	(473)	(551)
Net cash inflow (outflow) from operating activities	**746**	1,591	**4,927**	6,174
Cash flow from investing activities				
Interest received	4	1	7	7
Dividends received from associates and joint ventures	-	-	-	2
Net (acquisition) disposal of subsidiaries[4], associates and joint ventures	(2)	(3)	(23)	51
Purchases of property, plant and equipment and software	(852)	(923)	(3,362)	(3,145)
Proceeds on disposal of property, plant and equipment	8	17	21	26
Purchase of non-current asset investments	-	-	-	(22)
Sale of non-current asset investments	19	-	19	-
Purchases of current financial assets	(2,682)	(2,477)	(12,629)	(9,411)
Proceeds on disposal of current financial assets	3,629	3,316	11,134	10,834
Net cash inflow (outflow) from investing activities	**124**	(69)	**(4,833)**	(1,658)
Cash flow from financing activities				
Interest paid	(152)	(155)	(555)	(629)
Equity dividends paid	(479)	(480)	(1,523)	(1,435)
Proceeds from bank loans and bonds	3	-	3,760	3
Repayment of borrowings[5]	(547)	(733)	(1,401)	(1,805)
Cash flows from derivatives related to net debt	(120)	(8)	(188)	119
Net repayment on facility loans	-	(1)	-	(619)
Proceeds from issue of own shares	4	4	53	70
Repurchase of ordinary share capital	-	-	(221)	(206)
Net cash inflow (outflow) from financing activities	**(1,291)**	(1,373)	**(75)**	(4,502)
Net increase (decrease) in cash and cash equivalents	**(421)**	149	**19**	14
Opening cash and cash equivalents	932	360	511	459
Net increase (decrease) in cash and cash equivalents	(421)	149	19	14
Effect of exchange rate changes	(12)	2	(31)	38
Closing cash and cash equivalents[6]	**499**	511	**499**	511

[1] Includes a prepayment of £325m (2016/17: £nil) in respect of the acquisition of Spectrum

[2] Includes pension deficit payments of £856m for the quarter (Q4 2016/17: £255m) and £872m for the year to 31 March 2018 (31 March 2017: £274m)

[3] Includes cash flows relating to TV programme rights

[4] Prior year includes a true up of consideration following the audit of the completion balance sheet relating to the acquisition of EE in 2017

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

[6] Net of bank overdrafts of £29m at 31 March 2018 (31 March 2017: £17m)

Notes to the condensed consolidated financial statements

1 Basis of preparation and accounting policies

The condensed consolidated financial statements ('the financial statements') on pages 19 to 24 comprise the financial results of BT Group plc for the quarters and years to 31 March 2018 and 2017 together with the audited balance sheet at 31 March 2018 and 2017. The results for the year to 31 March 2018 have been extracted from the 31 March 2018 audited consolidated financial statements which have been approved by the Board of Directors. These have not yet been delivered to the Registrar of Companies but are expected to be published on 24 May 2018. The financial statements for the fourth quarter are unaudited.

The financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2017 and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

The financial information set out above does not constitute the company's statutory accounts for the years to 31 March 2018 or 2017 but is derived from those accounts. The auditors have reported on those accounts; their reports (i) were unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for the year to 31 March 2018 or 31 March 2017. Statutory accounts for the year to 31 March 2017 were approved by the Board of Directors on 11 May 2017, published on 25 May 2017 and have been delivered to the Registrar of Companies.

2 Operating results – by customer facing unit

	External revenue	Internal revenue	Group revenue	EBITDA	Operating profit
Fourth quarter to 31 March 2018	**£m**	**£m**	**£m**	**£m**	**£m**
BT Consumer	**1,271**	**18**	**1,289**	**295**	**238**
EE	**1,310**	**10**	**1,320**	**433**	**232**
Business and Public Sector	**1,128**	**29**	**1,157**	**362**	**269**
Global Services	**1,241**	**-**	**1,241**	**137**	**32**
Wholesale and Ventures	**472**	**34**	**506**	**204**	**126**
Openreach	**543**	**746**	**1,289**	**641**	**307**
Other	**2**	**(2)**	**-**	**11**	**(10)**
Intra-group items	**-**	**(835)**	**(835)**	**-**	**-**
Total	**5,967**	**-**	**5,967**	**2,083**	**1,194**
Fourth quarter to 31 March 2017					
BT Consumer	1,230	16	1,246	261	208
EE	1,251	8	1,259	316	135
Business and Public Sector	1,189	33	1,222	391	303
Global Services	1,422	-	1,422	204	96
Wholesale and Ventures	504	37	541	220	141
Openreach	528	761	1,289	695	340
Other	4	-	4	(18)	(45)
Intra-group items	-	(855)	(855)	-	-
Total	6,128	-	6,128	2,069	1,178

	External revenue	Internal revenue	Group revenue	EBITDA	Operating profit
Year to 31 March 2018	**£m**	**£m**	**£m**	**£m**	**£m**
BT Consumer	**5,000**	**66**	**5,066**	**1,023**	**807**
EE	**5,257**	**37**	**5,294**	**1,353**	**577**
Business and Public Sector	**4,448**	**115**	**4,563**	**1,418**	**1,053**
Global Services	**5,013**	**-**	**5,013**	**434**	**10**
Wholesale and Ventures	**1,875**	**134**	**2,009**	**754**	**443**
Openreach	**2,145**	**2,978**	**5,123**	**2,520**	**1,160**
Other	**8**	**-**	**8**	**3**	**(59)**
Intra-group items	**-**	**(3,330)**	**(3,330)**	**-**	**-**
Total	**23,746**	**-**	**23,746**	**7,505**	**3,991**
Year to 31 March 2017					
BT Consumer	4,871	63	4,934	1,012	803
EE	5,053	37	5,090	1,156	376
Business and Public Sector	4,636	122	4,758	1,528	1,176
Global Services	5,479	-	5,479	495	56
Wholesale and Ventures	1,971	138	2,109	834	528
Openreach	2,062	3,036	5,098	2,633	1,264
Other	10	-	10	(13)	(68)
Intra-group items	-	(3,396)	(3,396)	-	-
Total	24,082	-	24,082	7,645	4,135

3 Operating costs

	Fourth quarter to 31 March		Year to 31 March	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Direct labour costs	**1,325**	1,252	**5,348**	5,103
Indirect labour costs	**242**	238	**927**	862
Leaver costs	**13**	18	**50**	86
Total labour costs	**1,580**	1,508	**6,325**	6,051
Capitalised labour	**(370)**	(358)	**(1,410)**	(1,276)
Net labour costs	**1,210**	1,150	**4,915**	4,775
Payments to telecommunications operators	**545**	644	**2,306**	2,653
Property and energy costs	**308**	300	**1,285**	1,202
Network operating and IT costs	**243**	275	**963**	983
Programme rights charges	**192**	187	**763**	714
Other operating costs	**1,386**	1,503	**6,009**	6,110
Operating costs before depreciation, amortisation and specific items	**3,884**	4,059	**16,241**	16,437
Depreciation and amortisation	**889**	891	**3,514**	3,510
Total operating costs before specific items	**4,773**	4,950	**19,755**	19,947
Specific items (Note 4)	**119**	534	**587**	948
Total operating costs	**4,892**	5,484	**20,342**	20,895

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	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Specific revenue				
Italian business investigation	-	-	-	22
Regulatory matters	-	6	23	(2)
Specific revenue	**-**	6	**23**	20
Specific operating costs				
Restructuring charge	69	-	241	-
EE acquisition warranty claims	-	-	225	-
EE integration costs	11	123[1]	46	215[1]
Property rationalisation costs	28	-	28	-
Regulatory matters	4	394	26	481
Italian business investigation	7	15	22	238
Profit on disposal of business	-	-	(1)	(16)
Out of period irrecoverable VAT	-	2	-	30
Specific operating costs	**119**	534	**587**	948
Specific operating loss	**119**	540	**610**	968
Interest on out of period irrecoverable VAT	-	-	-	1
Net interest expense on pensions	55	51	218	209
Net specific items charge before tax	**174**	591	**828**	1,178
Tax credit on specific items	(24)	(112)	(87)	(154)
Tax credit on re-measurement of deferred tax	-	(20)	-	(63)
Net after tax	**150**	459	**741**	961

[1] This includes £62m of specific non-cash amortisation relating to the write-off of IT assets as we integrated the BT and EE IT infrastructure

Restructuring charge

During the year we incurred charges of £241m (2016/17: £nil), primarily relating to leaver costs. These costs reflect projects within our group-wide cost transformation programme, and further related charges will be recognised in future years.

EE acquisition warranty claims

In the year we reached settlements with Deutsche Telekom and Orange in respect of warranty claims under the 2015 EE acquisition agreement, arising from the issues previously announced regarding our operations in Italy. This represents a full and final settlement of these issues and results in a specific item charge of £225m (2016/17: £nil).

Regulatory matters

We recognised a net charge of £49m (2016/17: £479m) in relation to regulatory matters in the year. Of this, £23m is recognised in revenue and £26m in operating costs. These are made up of the following:

Deemed Consent

In 2016/17 a charge of £342m was recognised in relation to Ofcom's March 2017 findings of its investigation into our historical practices on Deemed Consent by Openreach. This included a fine of £42m. We have agreed the majority of compensation payments to other Communications Providers in the year and continue to estimate the total compensation payments will amount to £300m.

Ladder pricing agreements

In 2016/17 we recognised revenue and costs of £8m being the prior year impacts of ladder pricing agreements with other UK mobile operators following a Supreme Court judgement in July 2014.

Other regulatory matters

We re-assessed our regulatory risk provision in light of recent regulatory decisions by Ofcom. As a result we have increased our net provision by £49m (2016/17: £137m) for the year.

EE integration costs

In the year we incurred £46m (2016/17: £215m) of integration related costs for EE.

Property rationalisation costs

We have recognised a charge of £28m (2016/17: £nil) relating to the rationalisation of the group's property portfolio.

Italian business investigation

In the prior year we recognised a charge of £260m in respect of the investigation into our Italian business. In 2017/18, we have incurred professional costs of £22m relating to the investigation.

Disposal of businesses

We recognised a profit on disposal of non-core businesses of £1m (2016/17: £16m)

Out of period irrecoverable VAT

In 2016/17 we recognised a £30m charge for the year for out of period irrecoverable VAT and a further £1m related interest charge for the year.

Interest expense on retirement benefit obligation

For the year we incurred £218m (2016/17: £209m) of interest cost in relation to our defined benefit pension obligations.

Tax on specific items

A tax credit of £87m (2016/17: £217m) was recognised in relation to specific items and re-measurement of deferred tax.

5 Pensions

	31 March 2018	31 March 2017
	£bn	£bn
IAS 19 liabilities – BTPS	**(55.8)**	(58.6)
Assets – BTPS	**49.9**	50.0
Other schemes	**(0.5)**	(0.5)
Total IAS 19 deficit, gross of tax	**(6.4)**	(9.1)
Total IAS 19 deficit, net of tax	**(5.3)**	(7.6)
Discount rate (nominal)	**2.65%**	2.40%
Discount rate (real)	**(0.44)%**	(0.78)%
RPI inflation	**3.10%**	3.20%
CPI inflation	**1.0% below RPI until 31 March 2023 and 1.1% below RPI thereafter**	0.7% below RPI until 31 March 2019 and 1.2% below RPI thereafter

6 Legal proceedings

The group is involved in various legal proceedings, including actual or threatened litigation. However, save as disclosed below, the group does not currently believe that there are any legal proceedings that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims below, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. There are many reasons why we cannot make these assessments with certainty, including, among others, that they are in early stages, no damages or remedies have been specified, and/or the often slow pace of litigation.

Italian business

Following the group's announcement with respect to our investigation into our Italian business in January 2017, three purported securities class action complaints were filed against the company and certain current and former officers in United States courts. The two actions brought in New York have since been voluntarily dismissed by the plaintiffs in those actions. On 21 November 2017, the lead plaintiff in the District of New Jersey action filed an amended complaint brought on behalf of purchasers of BT Group ADRs between May 2013 and January 2017, regarding allegations that the company made materially false and/or misleading statements during the class period. On 22 January 2018 we filed our motion to dismiss the amended complaint and the plaintiffs filed their reply to that motion on 23 March 2018. We filed our response to their reply on 7 May 2018 and expect the court to schedule oral argument on the motion.

The issues in Italy have also resulted in engagement with certain of our regulators and other authorities. We are cooperating fully with these bodies.

Phones 4U

In December 2016, the administrators of Phones 4U Limited (P4U) started legal proceedings in the High Court in the United Kingdom against EE, claiming payments under a retail trading agreement for sums then due in respect of revenues (net of costs) from certain customers prior to P4U entering administration. This sharing of revenue under the retail trading agreement was due to continue until September 2019, with related payments continuing until April 2021. On 8 May 2018 we reached a confidential agreement with the administrators of P4U to settle this matter. This settlement is in line with the accruals we held to cover potential payments required by EE.

Since 2015 the administrators have separately made allegations that EE and other mobile network operators colluded to procure P4U's insolvency. We dispute these allegations vigorously and to date no proceedings have been issued.

Brazilian tax claims

The Brazilian state tax authorities have made tax demands against certain Brazilian subsidiaries relating to the Tax on Distribution of Goods and Services (ICMS), an indirect tax imposed on the provision of telecommunications services in Brazil. The state tax authorities are seeking to impose ICMS on revenues earned on activities that the company does not consider as being part of the provision of telecommunications services, such as equipment rental and managed services. We have disputed the basis on which ICMS is imposed and the rate which the tax authorities are seeking to apply. We currently have 32 ICMS cases with a current potential value of £219m all covering assessments made for the period up to 2012, except for one case valued at £1.2m that covers the period 2013 to 2016. The judicial process is likely to take many years. There are eight cases, worth approximately £43m, that are pending appeal before the Sao Paulo Court of Appeal. A hearing for these eight cases took place on 21 February 2018 and a further hearing will take place in the coming months.

7 Principal risks and uncertainties (extracted from the BT Group plc Annual Report & Form 20-F 2018)

Principal risks and uncertainties

The principal risks and uncertainties that affect us could have an impact on our business, brand, assets, revenue, profits, liquidity or capital resources. The principal risks we described last year have evolved, and so has our response to them.

Our Enterprise Risk Management framework gives reasonable (but cannot give absolute) assurance that we've identified and addressed our biggest risks. However, there may be some risks that are either currently unknown, or currently seen as less important but with the potential to become more so in the future.

Events outside BT present both risks and opportunities. We focus our efforts on predicting and reducing risks while aiming to take advantage of any opportunities that may emerge.

We recognise the uncertainty that political and geo-political risks present, and have continued to operate a specific Brexit programme across BT that looks at how we might be affected and what our response should be. This programme is keeping a close watch on developments, and reports to a steering group chaired by our group CFO.

In the section below, we explain what we're doing to prevent our main risks from materialising, or to limit their impact if they're unavoidable. Our biggest risks and uncertainties should be considered alongside the risk management process, the forward-looking statements in this document and the associated cautionary statement, which you can read below.

OUR PRINCIPAL RISKS

Compliance risks

Significant Control Failure

We follow local and international law, including anti-corruption and bribery laws. The UK Bribery Act and US Foreign Corrupt Practices Act (FCPA) have extraterritorial reach, so cover our global operations. We also have to make sure we follow trade sanctions and import and export controls. We comply with the Modern Slavery Act and follow international standards on human rights, such as the International Labour Organisation's Principles and the UN Guiding Principles on Business and Human Rights.

We also face the risks associated with inappropriate and unethical behaviour in local and other markets by our people or associates, such as suppliers or agents, which can be difficult to detect. There is also a risk that our controls, which are designed to prevent, detect and correct such behaviour, may be circumvented. Controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions, regardless of how remote.

Financial controls, and the assurance that exists over them, play an important part in our ability to prevent and detect inappropriate behaviour. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Potential impact
If our people, or associates like suppliers or agents, breach anticorruption, bribery, sanctions or other legislation there could be significant penalties, criminal prosecution and damage to our brand. This could have an impact on future revenue and cash flow depending on the nature of the breach, the legislation concerned and any penalties. If we were accused of corruption, bribery, human rights abuses, violating sanctions regulations or other laws, it could lead to reputational damage with investors, regulators, civil society and customers. A breakdown in our financial control framework could result in financial misstatement.

What's changed over the last year?
We've seen an increase in Speak Up (BT's confidential hotline service) reports and conflict of interest registrations. In 2017/18 Speak Up reports increased by 63% on the previous year. This is indicative of a culture where people are more aware and confident to tell us about their concerns.

In terms of anti-corruption and bribery enforcement generally, we've continued to see a steady flow of significant cases from both the UK Bribery Act and the FCPA. In the US 11 companies paid a total of $1.92 billion to resolve FCPA cases in 2017.

There's also been an increase in legislation (either enacted or proposed) to address and report on human rights abuses by companies.

How we're mitigating the risks

This year we've implemented a major programme of work to strengthen our controls and compliance activities, and ensure awareness of the standards we expect. Following the identification of inappropriate behaviours in our Italian business in the summer of 2016, we have also implemented wider controls that monitor our overseas operations in our shared service centres, Global Services and at a group level.

We've redefined and communicated our three lines of defence model, and strengthened our controls policies and procedures. This covered both financial and non-financial controls, and we've re- mapped our assurance coverage across the three lines of defence for our principal risks and uncertainties. This helped us identify opportunities to improve our controls policies and procedures, as well as to extend the assurance that operates over the controls. We're also building awareness and understanding, and all finance employees have completed Financial Statement Fraud awareness training, including a module on how to escalate concerns.

We've also put a number of other controls in place to address risk in this area. These include an anti-corruption and bribery programme and 'The Way We Work', our ethical code, available in 14 languages. We ask all our people to complete training and sign up to The Way We Work which includes our zero tolerance to bribery and corruption. We've developed a new guide this year, 'The BT Way', which brings together for our people how we're organised and deliver for our customers, our ethical code and our values.

We have policies covering conflicts of interest, gifts and hospitality, charitable donations and sponsorship. We also run tailored training for people in higher-risk roles like procurement and sales.

We regularly weigh up our business integrity risks to make sure we've got the right mitigation in place. We've introduced an Ethics & Compliance Integrity Risk Dashboard. It brings together various indicators to better identify possible emerging trends or particular hotspots. The approach draws together various themes to look for patterns and establish any outliers across our business.

All Speak Up reports are passed to the director of ethics and compliance for action. Our confidential hotline is operated by a third party and is available to employees and third-party contractors who can remain anonymous if they choose to. Any reports received direct by BT are also dealt with in accordance with our Speak Up procedures.

Our internal audit team regularly runs checks on our business. External providers also assess areas we think are higher risk (such as the use of agents), to make sure people understand our policies and that controls are working.

We do due diligence checks on third parties like suppliers, agents, resellers and distribution. In 2017/18 we completed 32 reviews of our existing agents resellers and distributors. We take a risk-based approach to these reviews, which include external reviews, internal on-site reviews and desk-based reviews. Our procurement contracts include anti-corruption and bribery clauses. In addition all new suppliers, agents, resellers and distributors go through an on-boarding process which includes financial checks and the use of our due diligence screening tool. Existing suppliers, agents, resellers and distributors are additionally screened on a weekly basis.

Our sanctions policy helps us keep track of trade sanctions and export controls that apply to us. That means all bids involving a country which is subject to our sanctions policy requires approval. The policy also mandates everyone in BT to use our internal shipping system to arrange international exports, as it runs compliance checks and flags any orders which need an export licence.

We launched a customer due diligence tool which we use when bidding for customer contracts. It identifies human rights risks and links them to the sanctions approval process. We've run training and calls to raise awareness of the tool. We've also carried out human rights impact assessments on our operations in India, Russia and China, and have developed an overarching human rights policy for imminent launch. We reported publicly on our most salient human rights risks in our Privacy and Free Expression Report in 2015, which we're updating in 2018 to include parts of our international business. Our Human Rights Steering Group reviews our programme and discusses current issues. We've also been working closely with peers through organisations like the Business Against Slavery Forum and Global Network Initiative.

Despite our efforts, unfortunately not everyone gets it right every time. We disciplined 205 employees in the UK as a result of ethical misconduct this year, and 98 left the company. The most common issues related to inappropriate use of company vehicles.

Processing our customers data

We control and process huge quantities of customer data around the world, so observing data privacy laws is something we take extremely seriously. It's essential that individuals and businesses can trust us to do the right thing with their data.

We make sure our customers' data is secure, and protected against both internal and external threats (eg cyberattacks). Being trusted with our customers' data goes further than that though. It means preserving the integrity of the personal data we process, and only keeping the things we need to provide customers with the services they've signed up for. It also means being transparent around how we use customer data, who we share it with, making sure the way we process personal data is legal, fair and in line with customers' rights and wishes, and ensuring that we fulfil the legal obligations we have when customers want to exercise their rights under data legislation. As a communications provider we currently operate under a stringent reporting regime to tell the UK Information Commissioner's Office (ICO) if we become aware of a personal data security breach. We must also tell any affected individuals as quickly as possible if the incident is likely to have a significant impact on them. On 25 May 2018 EU General Data Protection Regulation (GDPR) will come into force. We are in the process of implementing more stringent procedures around data protection in order to comply with the GDPR requirements, which may lead to higher regulatory compliance costs.

An individual's fundamental right to privacy is reflected in the fact that data privacy laws are in force in more than 100 countries. The nature of those laws vary across different parts of the world. Increasingly we (and other multinationals) have to show that we're handling personal data in line with a complex web of national data laws and society's ethical expectations.

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

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

What's changed over the last year?
The GDPR is deemed one of the biggest shake ups in data law for over a decade. It's been created to update the existing law to ensure that individuals' data is protected and secured and gives people a greater say as to how their data is used. It also increases their rights as to how their personal data is kept, used and retained by businesses. The sanctions for breaching the GDPR are significantly higher than under the previous regime, which could result in a substantial fine in the event of a breach.

Scrutiny from national regulators is increasing as companies are monitored to ensure they're working towards compliance with the new law. In addition within the last twelve months several large companies have suffered further well publicised data incidents and the general trend towards bigger financial penalties has increased.

How we're mitigating the risks
We've created a compliance programme to review all activities that involve customer data across the business in light of the new regulatory requirements. Our focus will be on protecting our systems, enhancing our operational processes to protect customer data, and refreshing our training so that our people understand the importance of the data they handle.

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

The Chief Privacy Officer and her team champion privacy awareness, and are responsible for undertaking monitoring and assurance to make sure data compliance is embedded within the business. Our mitigations against cyberattacks are described in our Security and resilience risk.

Health, safety and wellbeing
Our people are crucial to our business and if they feel safe, healthy and happy they will perform better for our customers and our shareholders. Working to reduce the risk of harm to our people helps us comply with health and safety laws wherever we operate.

Many of our people, especially our UK engineers, work for much of the time in community settings where we have limited control over the working environment. Much of the network is carried above ground level and temporary work at height is a major risk for us – over the course of a year our people will undertake more than 35 million climbing jobs. All of our people work in a fast paced and highly competitive sector where change is constant and psychological pressures are significant. Managing physical and psychological hazards is therefore complex.

Potential impact
We work to make sure our people go home safely every day. Any health and safety failure could result in injury to our people or members of the public, financial penalties, and/or reputational damage.

The wellbeing of our colleagues is important if we're to transform our business while continuing to recruit, retain and engage our workforce to deliver a great customer experience and grow the business. An adverse reaction to change could impact talent retention, resulting in a loss of critical skills and greater need for external recruitment, which would add cost to the business. Poor engagement also raises the risk of general industrial unrest and action.

What's changed over the last year?

Changes in technology and working practices help to reduce the physical risks to our people. For example, the shift from copper to fibre in the network means our work involves less heavy manual labour, reducing the risk of musculo-skeletal disorders as a result. Conversely, people increasingly seek to attribute common health problems to past work activity with the aim of securing compensation, and the regulatory environment is getting harsher.

In parallel, a change in our workforce is increasing risks in areas such as driving. We've had a mature workforce with little labour turnover for many years. That cadre is reaching retirement age at the same time as demand for our products and services is increasing, and so we're recruiting large numbers of younger people. The new intake has a different risk attitude, combined with less experience, so we need to make sure we put in additional safeguards with less reliance on expertise and individual judgement.

The pace of upgrading the network, fixed and mobile, has continued to accelerate. That increases our civil engineering workload and the hazards and risks associated with that type of work. The Grenfell Tower fire has raised awareness of fire issues – we've reviewed cladding across the BT estate and we're examining a range of other aspects of fire safety.

The pace and scale of change within the business has also continued to accelerate and we're aware this has a psychological impact on our people. The risk of epidemic disease is constant; this year our main focus has been on pneumonic plague and influenza.

How we're mitigating the risks

We've got a companywide and Board-endorsed health, safety and wellbeing strategy which has been refreshed this year. The Board receives a bi-annual report which tracks key performance indicators and which forms the basis of a discussion of emerging issues. The strategy is cascaded through the chief executive to the operational businesses, each of which formulates its own plans and targets on an annual basis.

At an operational level, our managers take responsibility for making sure their teams know how to comply with health and safety standards. We monitor compliance using annual licensing, scheduled refresher training, competency assessments and accreditation processes for higher-risk groups. All our people undertake training in basic health and safety. Progress is monitored by a companywide health, safety & wellbeing forum chaired by the Group HR Director. Professional input is provided through a central centre of expertise which supplements advisers in the operational units.

This year we've completed a liability review and a material controls audit, both of which highlighted competency, accreditation and assurance as areas for attention. We're undertaking a comprehensive revision of our health and safety training, with an emphasis on higher-risk activities. We make sure that training is externally accredited where possible and we're extending the accreditation of our management systems where appropriate. We've adopted a three lines of defence approach and we're enhancing our first and second lines of assurance as a result of audit recommendations. We're procuring a new IT system which will help us better capture and share information.

We provide comprehensive support to our people to enhance their wellbeing. We provide extensive guidance on promoting good physical, psychological and emotional health. We launched this year a major programme on healthy change management. We train our managers to identify the early signs of distress and how to deal with them. This year we've supplemented that with a peer support scheme that uses our peoples' experience of mental ill health to help their colleagues. We provide funded treatment services for mental health and musculo-skeletal disorders and have achieved a 95% rehabilitation rate.

Competition and technology risks

Our markets are characterised by intensifying competition from established players and new entrants. This competition compounds some of the external challenges that we see in the market place, notably:

- Fixed broadband and mobile connectivity nearing saturation, with most segments of the UK telecoms markets now growing below the rate of inflation;
- Customers seeking fast migration from higher-margin legacy products to fully digitised, converged, secure, faultless solutions;
- Efficient markets demanding clear differentiation for premium pricing, driving price deflation of basic connectivity and data;
- High exit barriers, prolonging and intensifying competition even when selected companies in the sector are struggling to generate economic returns.

Technology change is also a key characteristic of our sector. We need to be able to identify emerging technologies, assess how customers will adopt these technologies, and invest accordingly, frequently a long-time before the demand materialises. We also need to respond to changes in the use of existing technology, such as the exponential growth the sector has seen in data consumption and network capacity requirements.

Potential impact

Intensified competition can result in lower volumes and/or prices than we currently forecast. If we do not respond effectively to competition then we can lose market share, revenue and/or profit.

In addition, new technology developments can lead to accelerated obsolescence of our current products, increased investment requirements, new sources of competition and/or the deterioration of our competitive position. This in turn can result in lower volumes and prices, stranded assets and higher costs. A failure to invest optimally in technology today can have implications for our market position and ability to generate future returns.

What's changed over the last year?

Set against a challenging economic climate, in which the outlook for the UK economy has deteriorated, our leading competitors have been very active over the last 12 months. Important developments included:

- Virgin Media's continued expansion of its UK network;
- Vodafone's move into fibre, including the FTTH partnership signed with CityFibre;
- Hyperoptic securing £100m of funding to expand its UK network;
- 'zero-rated' mobile data propositions launched by H3G and Vodafone;
- Sky's continued success with Now-TV;
- TalkTalk's efforts to grow its broadband subscriber base under a new strategy.

Technological developments and changing customer preferences also continue to create risk to our business model. For example:

- While mobile data usage continues to grow, prices per gigabyte of network traffic have continued to fall. The on-going profitability of our mobile operations hinges on our being able to successfully monetise mobile data growth in the face of strong competition;
- Support for a large-scale deployment of FTTP infrastructure among key stakeholders has increased. However, there is still material uncertainty as to whether a viable economic case can be found for large-scale deployment. The economic case for FTTP remains challenging given superfast broadband coverage now exceeds 90% and the majority of end-users are currently only willing to pay a low premium for additional speeds.

How we're mitigating the risks

We've evolved our strategy to reflect this environment, with renewed focus on:

- delivering differentiated customer experiences;
- investing in integrated network leadership;
- transforming our operating model.

We believe this is the best way for us to stay ahead of our competitors and to generate long-term, sustainable value growth. We're also working with stakeholders to help develop an environment that both encourages and facilitates investment in a large-scale FTTP environment.

We also keep a close eye on technology developments that could impact us achieving our strategic goals, including through our Board Technology Committee. This Committee, chaired by the CEO, agrees our technology strategies, monitors emerging trends and oversees technology risk management across the group.

Communications industry regulation

Regulation affects much of what we do.

In the UK, where Ofcom identifies competition concerns in communications markets, it can set rules requiring us to provide certain services on specified terms to our customers. Ofcom reviews markets regularly and can introduce, extend, relax or remove rules as a result of its findings. It has powers to conduct specific investigations about market behaviour, including price levels. In addition, Ofcom can set out rules for spectrum auctions and to ensure consumer protection in the sector.

Ofcom will investigate our compliance with regulatory requirements and can impose fines and restitution on us if we fail to comply.

Following the Government's rejection of our voluntary commitment, a broadband universal service will now be delivered through a regulatory obligation. We acknowledge the impact that this will have on industry and the risks attached to a regulatory broadband USO. We will work hard with Ofcom to find a solution that works for our customers and society, and that minimises the distortions for industry.

Ofcom also has powers to regulate the terms on which we're supplied with certain services by others – for instance, mobile call termination – and can sort out disputes between us and other communications providers about the terms on which services are supplied. Appeals of regulatory decisions also give rise to risks (and opportunities).

Outside the UK, regulation defines where and how we are able to compete through licensing rules and defining the terms on which we are able to access networks of incumbent operators.

Potential impact

Some of our revenue comes from supplying wholesale services to markets where Ofcom has found us to have significant market power. Most of this revenue relates to services where regulation requires us to cut average prices each year by a specific, real-term percentage for a three-year period.

Where other telecoms providers ask Ofcom to resolve disputes with us, there is a risk that Ofcom may set the prices at which we supply services, make us provide additional services and/or impact how we structure our business. In some circumstances, Ofcom can adjust past prices and make us pay back amounts to wholesale customers.

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

What's changed over the last year?

Ofcom has concluded market reviews in relation to wholesale narrowband access, wholesale local access and wholesale broadband access. They have also decided not to impose a temporary remedy requiring BT to provide a restricted form of dark fibre (at and below 1Gbit/s) in the leased lines markets, but will consider this again in their upcoming business connectivity market review. We have summarised this in the Regulation section.

We successfully appealed Ofcom's Business Connectivity Market Review (BCMR) statement to the Competition Appeal Tribunal which found in our favour and remitted the decision back to Ofcom. It has also started its next market review on BCMR.

In the retail market, Ofcom also expressed concerns in relation to the prices charged to voice-only customers. We've responded to Ofcom's concerns by agreeing to cut those prices. We've also introduced an automatic compensation scheme for slow repairs, missed appointments and delayed installations. Ofcom has also revised the General Conditions and the changes will come into force in October 2018.

Alongside the standard cycle of market reviews, we've been working hard to deliver on the Commitments made to Ofcom in March 2017 as part of its Digital Communications Review. We've made significant progress in this area, and have now introduced changes to our internal processes to ensure that we comply with both the letter and spirit of the commitments.

How we're mitigating the risks

We have a strong team of regulatory and policy specialists. Together with legal experts, compliance and operational teams they guard against potential risks and look for opportunities to positively shape the regulatory regime at the right time and in the right way. They engage regularly with regulators, Government, consumer organisations and other key stakeholders to build trust and to understand their outlook. They communicate our positions in a clear, consistent and straightforward way. Their insight also helps us to forecast future regulatory outcomes. We can then build sensible assumptions into our financial plans and investment decisions.

We push for clear, predictable and proportionate regulation that enables BT to succeed by delivering what customers and society want. Whenever there are market reviews, charge controls, disputes or investigations, we submit evidence and analysis. This helps us manage the risks around decisions in any particular year.

We can judicially review regulatory decisions and appeal to the Competition Appeal Tribunal. We can also raise disputes or complain (under the relevant regulatory framework or competition law) where we have problems getting access to wholesale services or to other access networks.

We're also working hard to deliver a great customer experience, going beyond our minimum regulatory obligations.

Political

Across our operations we are exposed to the effects of political and geopolitical risks, in particular:

– In the UK, internet access is increasingly seen as an essential part of people's lives. As a result, political debate continues to focus on network coverage, quality and speed of service, as well as broader issues of online safety and security. As well as providing a critical element of the UK's national infrastructure, both fixed and wireless, we're also engaged in supporting high-profile programmes such as BDUK and the Emergency Services Network.

– The result of the UK referendum to leave the European Union ('Brexit') significantly increased political uncertainty. This continues to impact political debates around the United Kingdom, such as the possibility of a second Scottish Independence referendum and the complex situation in Northern Ireland including border matters.
– Outside the UK, political and geopolitical risk can impact our business through changes in the regulatory and competitive landscape – an example is the US Administration's changed approach to trade policy - but also as a direct threat to our people and assets as a result of social unrest or a breakdown in the rule of law.

Potential impact

Political uncertainty can have direct financial consequences across the economy, impacting for example foreign exchange rates, the availability and cost of capital, interest rates and also resulting in changes in the tax regime. For BT specifically, the most significant impact of political risk is its potential interaction with some of our other Principal Risks. In the UK, we're seeing an increasing overlap between political debate and the regulatory environment, with the potential that our Communications Industry Regulation risk increases as a result.

The impacts of Brexit are still uncertain while the UK's future trading and transition relationship with the EU is determined, albeit the agreement in principle on a number of withdrawal measures was welcome, notably the commitment to protect the rights of EU citizens living in the UK and vice versa. There is the potential for our costs to increase, for example through any changes required to our systems to reflect new taxes or customs duties or other processes. Our regulatory risk could increase if there were to be future divergence with the EU regime. Our suppliers may face disruption as a result of challenges in their own organisations and supply chains. Also, delivering a great customer experience and great network will become more challenging if it is harder for us to recruit and retain skilled talent and to source sufficient construction workforce. The UK economy may also suffer as a result of this uncertainty.

Geopolitical risk outside the UK can most clearly impact our Communications Industry Regulation risk, but also our Security and Resilience risks where it poses a threat to the continuity of our operations.

What's changed over the last year?

This has been a complex year, given the 2017 General Election, EU Withdrawal Bill, Brexit negotiations and other policy measures. A second Scottish Independence Referendum became less imminent as the SNP has a significantly reduced number of Scottish seats (albeit a majority still).

In December 2017, the Government reached agreement in principle with the EU on divorce measures around people, money and Irish border principles; negotiations yearly in 2018 focused on finalising withdrawal issues and also moved on to transition and trading arrangements. What trading relationship the UK/EU will end up with and by when is unclear.

In the UK, the conclusion of Ofcom's Digital Communications Review (DCR) has resolved some of the uncertainties that affected BT 12 months ago. The agreement we reached with Ofcom at the conclusion of the review has led to the creation of a new, independent board for Openreach, which is working well.

Openreach is doing its own independent work to plan its fibre rollout, in open consultation with the rest of the industry. The Government has now established a Future Telecoms Infrastructure Review, which we hope can provide additional certainty for companies and investors about how the policy and regulatory framework can promote long-term decision-making and, as a consequence, underpin future 5G and fibre deployment.

How we're mitigating the risks

We maintain strong engagement with the UK Government, key departments, MPs, peers, the media and with business and consumer bodies. We also engage closely with governments and politicians in Brussels and in our key markets around the world. We seek to inform public debate around telecommunications through fact-based evidence concerning the market and our role within it.

We've progressed the programme across the business to help us understand and manage the risks associated with Brexit. This also considered other potential impacts such as those associated with a second Scottish Independence referendum, and the border questions on the island of Ireland, and is led by a steering group chaired by the Group CFO. We've also offered our views to Government, Parliament and business groups on related policy areas, such as R&D, data flows, trade and people/skills matters.

Outside the UK, our Public Affairs and regulatory teams work to help support governments and regulators in ensuring that markets work in an open and fairly regulated way for the benefit of customers and competition. Geopolitical risks are closely monitored, with our security and business continuity teams particularly focused on protecting our people and our assets.

There continues to be significant uncertainty following the UK's vote to leave the European Union (EU). We are making sure that we're prepared for the final outcome of negotiations between the UK and the EU. We also wish to help inform the debate where relevant to our sector and our company.

How we managed the risk
We decided early on that we needed to understand what risks and opportunities Brexit might create for us, so ahead of the vote we set up a programme bringing together functions across the business.

We then ramped up the activity after the vote, forming a steering group chaired by the group CFO. Over the last two years or so, it has overseen work that is being done by various sub-projects. These are looking at areas such as the tax, people, procurement, systems, regulatory and commercial impacts of Brexit.

This year we've continued to offer our views to government on related policy areas, including responding to Parliamentary inquiries and consultation documents (on migration and on trade for instance), and working with business and sector associations to explain issues. We've also progressed our contingency planning, including identifying when we might need to put these plans into effect.

The result, and what we learnt
The nature of the Brexit negotiations have created a period of prolonged uncertainty. The readiness work that we've undertaken across the business means we can provide confidence of our resilience to our people, our customers and our suppliers.

Pensions
We have a large funding obligation to our defined benefit ('DB') pension schemes. The largest of these, the BT Pension Scheme (BTPS or Scheme), represents over 97% of our pension obligations. The BTPS faces similar risks to other UK DB schemes: things like future low investment returns, high inflation, longer life expectancy and regulatory changes may all mean the BTPS becomes more of a financial burden.

Potential impact
The next valuation of the BTPS is scheduled to take place as at 30 June 2020 and an increase in the pension deficit may have an impact on the level of deficit payments we are required to make into the Scheme. Indirectly it may also have an adverse impact on our share price and credit rating.

Any deterioration in our credit rating would increase our cost of borrowing and may limit the availability or flexibility of future funding for the group, thereby affecting our ability to invest, pay dividends or repay debt as it matures.

What's changed over the last year?
The actuarial valuation of the Scheme as at 30 June 2017 was announced in May 2018. This provides certainty over the level of cash contributions required until the next triennial valuation is concluded, taking place no later than 30 June 2020. As part of the actuarial valuation, we reviewed the Scheme's approach to investing assets with the Trustee. We agreed to changes which should help protect the BTPS from volatile investment returns and high inflation by investing in a way which provides greater certainty over the Scheme's ability to meet benefit payments over the longer term.

When a valuation is calculated, the funding position is affected by the financial market conditions at the valuation date. When determining expected future returns on the Scheme assets, different factors are taken into account, including yields (or returns) on government bonds. If assets returns are lower than expected over the period to the next valuation, or a lower future investment return assumption is adopted at the 30 June 2020 valuation, the deficit would likely increase, potentially leading to a higher level of future deficit payments.

In March 2018, we announced the closure of Sections B and C of the BTPS to future benefit accrual (which represents more than 99% of the BTPS active membership), having reached agreement with the relevant Unions. Although we will establish a new hybrid pension arrangement for non-management employees in the BTPS at closure, the changes reduce the financial risks associated with providing future defined benefit pension accrual. We currently expect to close the BTPS from 30 June 2018.

How we're mitigating the risks
The investment performance and liability experience are regularly reviewed by both us and the Trustee of the BTPS. We also consider the associated risks and possible mitigations. The investment strategy aims to partly mitigate the impact of increases in the liabilities, for example by investing in assets that will increase in value if future inflation expectations rise. The assets held are also well diversified, softening the impact of sharp drops in the value of individual asset classes. This helps us maintain a reasonable balance of risk and return.

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

Financial risk
In common with other major international businesses, we're exposed to a variety of financial risks. These include treasury risks, which arise principally from market risk (including interest rate risk and foreign exchange risk), credit risk, and liquidity risk. They also include tax risk, principally that we need to understand fully the current and future tax consequences of business decisions to comply with tax rules and avoid financial and reputational damage.

Potential impact
If there is an adverse movement in foreign exchange and interest rates there could be a negative impact on the group's profitability, cash flow, and balance sheet. Sensitivity in the income statement and shareholders' equity arising from interest rate and foreign exchange volatility is shown in note 27 to the Consolidated Financial Statements.

The failure of Treasury counterparties to honour financial obligations could have an adverse impact on the group's liquidity (for example from the loss of cash deposits) and profitability (for example from increased finance expenses). A deterioration in liquidity could have an adverse impact on the Board's assessment of going concern, particularly if combined with an inability to refinance maturing debt.

If we fail to comply with tax rules then we could face financial penalties and reputational damage. Beyond compliance, if we don't adequately reflect the current and future tax consequences in our business decisions, we might make bad decisions resulting in financial loss and potentially financial misstatements, as well as reputational damage.

What's changed over the last year?
We continue to face the same treasury risks as in financial year 2016/17.

From a taxation perspective, our business continues to evolve rapidly, creating different tax consequences, for example the bringing together of EE and the BT Consumer customer-facing units, the Openreach industry consultation on large-scale FTTP, and a review of our pension provision. During the year, new UK legislation was introduced, which restricts deductions for interest expense and which reduced the ability to offset profits with prior year losses. Accounting changes can also have tax consequences, for example, forthcoming changes to accounting for revenue from contracts with customers and accounting for leases. Global tax rules also continue to evolve, for example the OECD's Base Erosion and Profit Shifting project, US tax reform, the European Commission's challenge to tax practices under state aid provisions, and EC and UK proposals for the introduction of an interim digital services tax. All these change the current and future tax consequences of business decisions.

How we're mitigating the risks
We have a centralised treasury function whose primary role is to manage liquidity and funding requirements as well as our exposure to associated financial and market risks, including credit risk, interest rate risk and foreign exchange risk, in-line with Board-approved policies. These risk management policies are described in detail in note 27 to the Consolidated Financial Statements. The Board reviews liquidity and funding requirements of the group on an ongoing basis.

A strong governance framework is also at the heart of our mitigation approach to tax risk. We've a framework for managing taxes that is set centrally and agreed by the Board. We employ suitably qualified professionals to manage and assure the operation of this framework. We seek to pay tax in accordance with the laws of the countries where we do business.

However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. Nevertheless, we always seek open and constructive working relationships with tax authorities worldwide, engaging reputable independent advice where required.

Security and resilience
Our commercial success is firmly rooted in our reputation for the security and resilience of our services. So we strive to maintain the highest standards of protection and incident management in order to confront the natural perils, network and system faults, and malicious acts that threaten our operations.

By monitoring cyberattacks on our networks and systems and our peers and customers, we see that hacking tools, phishing scams and disruptive malware are becoming more sophisticated and yet more accessible to attackers. In response, we continue to develop our cyber defence capability and invest more in automatic detection and prevention systems. We recognise that services can also be interrupted by events such as supply chain failure, software changes, equipment faults, fire, flood, infrastructure outages and sabotage.

Potential impact
The consequences of security and resilience risks can include major financial loss, long-term damage to reputation and loss of market share. Regulatory sanctions, fines and contract penalties might be applied, contracts might be terminated, and costly concessions might be needed, together with unplanned and rapid improvements to retain business and rebuild trust. We might also miss opportunities to grow revenue and launch new services ahead of the competition.

What's changed over the last year?
Cyber attackers are learning how to defeat conventional defences such as Anti-Virus (AV), proxy servers, and basic authentication. They are changing malware signatures faster than AV vendors can deliver matching identity files, launching Denial of Service (DoS) attacks that are disguised as legitimate traffic at the application level, and using increasingly convincing phishing emails to trick users into giving access to restricted systems. The growth in ransomware attacks has made headline news and caused significant disruption to some of our corporate customers, but we have so far managed to avoid such consequences. Our incident management teams are gaining experience from these events and applying lessons learned to improve our responses. We're also helping customers by sharing this expertise.

We've increased the use of Artificial Intelligence (AI) in our cybersecurity operations to process the vast amount of data available. We use our own Saturn system to visually filter the information and help our analysts perform investigations. We're trialling further AI innovations that will detect network anomalies in large volumes of data, and learn patterns of how malware propagates.

Looking at other drivers of service interruption, 2017/18 has been relatively benign for the UK in terms of extreme weather events. However, accepting that the risk is increasing, we've continued to enhance our overall flood/storm preparedness. We've also been working with HMG and other utilities in planning for a 'Black Start' (major shutdown of the national power transmission system) scenario.

How we're mitigating the risks
We're making risk improvements involving people, processes and technology - prioritising the work according to our assessments of security and resilience exposure. The proportion of our network and systems that is monitored and logged continuously is rising steadily, and the security awareness of our employees is being enhanced by advanced training modules and mock phishing exercises.

Segmentation of our IT estate at the data centre level is now complete, and we're turning our attention to micro-segmentation at the applications level as we provision new cloud-based systems. The results of 'Red Team' exercises by our ethical hackers are driving improvements across BT, particularly where access controls are found to need upgrading. We've also been tightening our control of sensitive personal data in preparation for the EU General Data Privacy Regulations. This has prompted significant improvements in our IT inventory, which in turn makes it easier to manage major cyber incidents.

Mobile, geographically dispersed, emergency response capabilities are now operating at full designed capability. We've built on our site-specific flood defence plans, and completed specialist flood surveys of our most critical at risk assets, with a view during 2018/19 to deploying permanent flood defences as appropriate.

Members of our Emergency Response Team were deployed to the Caribbean to utilise their skills in providing emergency communications in response to hurricanes Irma and Maria. They were also able to use our improved approach to supporting community isolation situations in assisting the emergency services following the Grenfell Tower tragedy.

Employee engagement
Our people are central to everything we do and a vital part of our ambition to deliver a great customer experience and sustainable, profitable revenue growth. Our people strategy supports this ambition by creating an inclusive and enjoyable workplace so that our people can thrive as part of a dynamic business. Great employee engagement is necessary to ensure we meet our strategic aims.

Potential impact
We need to transform our business while also continuing to recruit, retain and engage our workforce to deliver a great customer experience and grow the business. An adverse reaction to change could impact talent retention resulting in a loss of critical skills and greater need for external recruitment, which would add cost to the business. Poor engagement also raises the risk of general industrial unrest and action.

What's changed over the last year?
We limited pensionable pay increases for some members of the BT pension scheme and subsequently initiated a review of our UK pension arrangements. Following the review, we decided to close the BTPS to ensure that our pension arrangements are fair, flexible and affordable for both employees and BT, which included enhancements to our defined contribution pension scheme. We continue to work through the people implications of making Openreach a separate legal entity in response to the outcome of the Digital Communications Review. We also announced the creation of a new Consumer team that brings together the BT Consumer and EE businesses.

How we're mitigating the risks
We've undertaken extensive consultation with unions, works councils and employee representatives as part of a comprehensive global engagement strategy designed to engender positive employee relations. We help employees understand the reasons for change and the impact it may have on them, while also working to protect service to customers.

The review of pension arrangements includes a proposal to enhance our defined contribution pension scheme to help provide an adequate income in retirement for all of our employees. We've continued to streamline our management structure to move decision making closer to the frontline customer teams and speed up the decision-making process to deliver better customer outcomes. We've also simplified our performance appraisal process, reducing the frequency of assessment and the number of performance categories to free up time for line managers to talk with their people and focus on developing their capabilities.

Change management

We are implementing a wide-ranging change programme across the entire organisation known as One BT. We need to continue to deliver differentiated customer experiences, whilst being able to have the financial capacity to invest in integrated network leadership. At the same time, we want BT to be a simple and agile business where our people can thrive.

In transforming our operating model, we need to manage this change carefully to ensure it delivers the desired outcomes. We recognise that such extensive change can also be a distraction and can cause uncertainty amongst our colleagues, so it's important that we keep focussed on delivering for our customers.

Potential impact

If we do not manage our change programmes carefully then they will not deliver the business outcomes that we are trying to achieve. That could result in poorer customer experiences, negative impacts on employee engagement, or potential overspend on the projects themselves, and at the end of the programmes we may not have achieved the efficient processes needed to deliver a great customer experience, the desired cost savings, or differentiated products and services we were trying to launch.

As we describe elsewhere in the Annual Report, we've been working hard on improving our customers' experiences, and have seen significant improvements over the last year. If our transformation programmes do not deliver their intended customer benefits, or divert colleagues' attention away from serving our customers, then we may suffer a reduction in the quality of the service we provide, and as a result incur customer churn and even financial penalties in some cases.

What's changed over the last year?

Over the past year, our key changes have included:

The launch of a pan-BT transformation programme, One BT, which is designed to help our businesses deliver to their full potential;

- Bringing together BT Consumer, EE and Plusnet into a new Consumer business;
- On-going work to deliver a new Digital Global Services;
- Announcing the integration of our Wholesale and Business and Public Sector businesses into a new Enterprise business;
- Announcing our plans to introduce a new People Framework, which will include a particular focus on our middle and senior-management grades;
- As we describe elsewhere in the Annual Report, we've also been making changes to our Openreach business to implement Ofcom's Digital Communications Review.

How we're mitigating the risk

We apply a formal structure and governance to our key change programmes – for example, One BT has a full-time Programme Office and a Transformation Committee. Change programmes are also supported by our Customer and Enterprise Transformation team. By bringing together several transformation teams into one, we are able to ensure that our internal change programmes are co-ordinated and remain focussed on delivering for our customers. The Customer and Enterprise Transformation team tracks programme delivery against targets for the Transformation Committee, Executive Committee and Board. The Transformation Committee meets weekly to make key decisions and to set the pace of change.

We recognise the importance of having the skills, capabilities, methods and tools to define and deliver change in the right way. So we've developed a new change approach, and have put in place an expert team that is building capability and providing direct support to HR, communications, change teams and our leaders in the business.

We've also maintained a close focus on our people and our culture, launching a number of specific and focused leadership capability development programmes to help our leaders manage their people through a period of extensive change whilst also delivering the best possible customer experiences.

Organisational change can cause uncertainty amongst colleagues, and we communicate closely with our unions and works councils in designing, announcing and implementing changes. Our engagement strategy allows us to monitor employee engagement on a regular basis, informing any interventions that we feel necessary.

Supply Chain
We operate in a global supply market. Our supply chains range from simple to very complex. It's critical to our operations that we can guarantee their integrity and continuity.

Global markets expose us to global risks, including different standards in labour, environmental and climate change practices, increasing regulation and geopolitical events. We weigh up the impact and likelihood of external market forces on our suppliers' ability to support us.

Globalisation means better sourcing opportunities, but brings challenges if suppliers become more geographically and culturally remote from our customers – or if governments put barriers in the way of doing business to protect national or regional economic interests.

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

Potential impact
If something goes wrong in our supply chain, the speed and scale of impact can vary. We need to determine the potential damage to customer experience, the likelihood of higher costs and the potential damage to our brand. If substituting a failing supplier meant that we had to disrupt our business, it could cost us a lot of time and money. If we couldn't find an alternative supplier, it might compromise the commitments we make to our customers, which could in turn lead to breach of contract, lost revenue or penalties.

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

If we don't meet the expectations of regulators that govern us and the data we manage, it could result in significant penalties. In the case of EU General Data Protection Regulation 2018, this could amount to 4% of our global annual turnover.

What's changed over the last year?
We dedicate time to assessing emerging geo-political threats and the impact they could have on our supply chain. These include the impacts of the UK leaving the EU in March 2019; the threat of modern slavery and human trafficking; and the growing threat of cyber-attacks on our systems and networks.

We continue to monitor the trend for mergers and acquisitions in some of the global markets we do business in. It highlights the risk of us becoming too dependent on single or monopolistic suppliers. We also try to make sure that suppliers do not become too dependent on us. Both scenarios are unhealthy for our business.

This year one of our more significant suppliers, Carillion, went into liquidation. However, by implementing our risk and governance arrangements we were able to manage and reduce the disruption to our business.

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

We make sure we exercise the right amount of due diligence when it comes to introducing new suppliers and continuing to do business with existing ones. That includes checks on company finances, business systems, accreditations, media reputation and ethical practices. The standards we apply to our suppliers are available on www.selling2bt.bt.com.

We manage our top suppliers according to the contracts they've signed. We work with them to find better ways of working, reducing our exposure to risks around poor supplier practices in the process.

We're also continually looking to improve our response to disruptive events.

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

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

Major contracts often involve implementing new systems and communications networks, transforming legacy networks, managing customer networks and developing new technologies. Delays or missed milestones might have an impact on us recovering these upfront costs. There's a substantial performance risk throughout the term of some of these highly-complex contracts.

Potential impact

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

One of our highest profile contracts is providing a key element of the UK Emergency Services Network (ESN) on our EE mobile network. The complexities described above all apply to this programme. This service is delivered with several partners and managed by the Home Office. The Home Office has delayed the launch date and further delays will impact the expected income. Furthermore, the criticality of this service increases our risk exposure once it's live, and given the network provides emergency services communications for the UK, performance in life of the network could have reputational consequences for BT.

We're continuing to deliver contracts with local authorities through regional fibre deployment programmes, including the Broadband Delivery UK programme (BDUK). As with our other major contracts, if we fail to deliver these contracts successfully it might lead to reduced future revenue, profitability and cash generation. As well as carrying a higher reputational risk, these contracts present specific risks around deployment, delivery and our ability to recover public funding. We also have an obligation to potentially either reinvest or repay grant funding depending on lots of different factors – including how many customers take up a new service.

What's changed over the last year?

We have extended our 'Gold Standard' quality programme to our Contract Accounting and financial management activities. Our major contracts are assessed against strict 'gold standard' criteria and those contract teams below the benchmark will be developed/coached for improvement in order to attain the standard.

Tough market conditions continue and the impact of the UK voting to leave the EU has meant some customer programmes have been delayed, which has had an impact on the business. Customers are asking for more flexibility in their contracts.

The majority of our first phase of BDUK contracts have now completed their deployment commitments. We're now nearing the contractual end dates of the second phase of contracts (SEP). In addition, we have further extended numerous existing contracts and begun deployment of the third phase of contracts. While these later phase contracts are smaller in scale and coverage, the deployment challenges are significantly greater in terms of the geography encountered as we reach further into the final 5% of households.

While our broadband contracts and ESN carry a different risk profile to other major corporate contracts, we apply our governance and reporting processes to make sure we identify risks and mitigation activities and report them to management.

How we're mitigating the risks

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

The BT Academy supports skills development and learning initiatives. These help our Contract Management Profession to better identify and manage risk. We also update new training collateral whenever we learn something new. In 2017/18 we introduced a Gold Standard sustainability measure to ensure our contracts continue to operate at the highest possible standard.

We continue to invest in risk training, and assess the management of our contracts against a best practice framework we've developed based on our knowledge of running and managing major programmes. We're also investing and growing our contract management expertise through the provision of accredited contract management training.

Use of Artificial Intelligence to help contract management

Developing an in-depth understanding of our obligations and performance across our entire major contracts portfolio is challenging. However, it is imperative if we are to manage risk and deliver a great customer experience.

How we managed the risk

We've introduced an Artificial Intelligence (AI) capability to improve the efficiency and accuracy when Analysing Major Contracts contained in the 'contract lifecycle management' system.

The result, and what we learnt

Our AI capability promises many benefits which we expect to increasingly evolve in support of Major Contract management, benefiting both BT and our customers. Analysing 'big data' has improved our revenue assurance capability as well as identifying risk trends across obligations on our more bespoke contracts. Finally, it's helped us to understand the consequences of changes to legislation, regulation or market impacts on our complex contracts.

Sharing malware data with ISPs

Cyber threats pose a risk to our entire industry. In our efforts to protect customers and businesses from global cyber-crime, we've taken industry collaboration to a new level.

How we managed the risk

In February 2018 we became the first telecommunications provider in the world to start sharing information about malicious software and websites on a large scale with other internet service providers (ISPs). We launched a free collaborative online platform to share our threat intelligence data across the ISP community in a secure and trusted way. We're now urging other UK broadband providers to follow our lead.

The result, and what we learnt

We're sharing data relating to malware because we believe the most effective way to bolster the UK's defences against cyber-crime is through greater collaboration and the exchange of information. If other ISPs join us in actively sharing threat intelligence data, this will help the entire industry to develop and strengthen a collective shield which will help to protect all customers.

Additional Information

Notes

1) Our commentary focuses on the trading results on an adjusted basis, which is a non-GAAP measure, being before specific items. Unless otherwise stated, revenue, operating costs, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, profit before tax, net finance expense, earnings per share (EPS) and normalised free cash flow are measured before specific items. This is consistent with the way that financial performance is measured by management and reported to the Board and the Executive 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. Reported revenue, reported operating costs, reported operating profit, reported profit before tax, reported net finance expense and reported EPS are the equivalent unadjusted or statutory measures. Reconciliations of reported to adjusted revenue, operating costs, operating profit, profit before tax and EPS are set out in the Group income statement. Reconciliations of underlying revenue excluding transit, EBITDA, net debt and free cash flow to the nearest measures prepared in accordance with IFRS are provided in this Additional Information.

2) Trend in underlying revenue excluding transit is a non-GAAP measure which seeks to reflect the underlying performance of the group that will contribute to long-term sustainable growth and as such excludes the impact of acquisitions and disposals, foreign exchange movements and any specific items. We exclude transit from the trend as transit traffic is low-margin and is affected by reductions in mobile termination rates.

Reconciliation of earnings before interest, tax, depreciation and amortisation

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

	Fourth quarter to 31 March		**Year to 31 March**	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Reported profit before tax	**872**	440	**2,616**	2,354
Share of post tax loss of associates and joint ventures	**-**	2	**1**	9
Net finance expense	**203**	196	**764**	804
Operating profit	**1,075**	638	**3,381**	3,167
Depreciation and amortisation	**889**	953	**3,514**	3,572
EBITDA	**1,964**	1,591	**6,895**	6,739
EBITDA specific items	**119**	478	**610**	906
Adjusted[1] EBITDA	**2,083**	2,069	**7,505**	7,645

[1] See Glossary on page 2

Free cash flow

Free cash flow and normalised free cash flow are not measures defined under IFRS but are key indicators used by management to assess operational performance. A reconciliation from cash generated from operations, the most directly comparable IFRS measure, to free cash flow and normalised free cash flow, is set out below.

	Fourth quarter to 31 March		Year to 31 March	
	2018	2017	**2018**	2017
	£m	£m	**£m**	£m
Cash generated from operations	**895**	1,760	**5,400**	6,725
Tax paid	**(149)**	(169)	**(473)**	(551)
Net cash inflows from operating activities	**746**	1,591	**4,927**	6,174
Add back pension deficit payments	**856**	255	**872**	274
Included in cash flows from investing activities				
Net purchase of property, plant and equipment and software	**(844)**	(906)	**(3,341)**	(3,119)
Interest received	**4**	1	**7**	7
Net sale (purchase) of non-current asset investments	**19**	-	**19**	(22)
Dividends received from associates and joint ventures	**-**	-	**-**	2
Included in cash flows from financing activities				
Interest paid	**(152)**	(155)	**(555)**	(629)
Free cash flow[1]	**629**	786	**1,929**	2,687
Net cash flow from specific items	**119**	59	**828**	205
Payments in respect of acquisition of spectrum	**325**	-	**325**	-
Cash tax benefit of pension deficit payments	**(47)**	(11)	**(109)**	(110)
Normalised free cash flow[1]	**1,026**	834	**2,973**	2,782

Net debt

Net debt is not a measure defined under IFRS but is a key indicator used by management to assess operational performance. A reconciliation from loans and other borrowings, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures, to net debt, is set out below.

	31 March 2018	31 March 2017
	£m	£m
Loans and other borrowings	**14,275**	12,713
Cash and cash equivalents	**(528)**	(528)
Current asset investments	**(3,022)**	(1,520)
	10,725	10,665
Adjustments:		
To re-translate currency denominated balances at swapped rates when hedged[2]	**(874)**	(1,419)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method[3]	**(224)**	(314)
Net debt[1]	**9,627**	8,932

[1] See Glossary on page 2
[2] The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency
[3] Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date

Reconciliation of year on year trend in underlying revenue excluding transit

Year on year trend in underlying revenue excluding transit is a measure which seeks to reflect the underlying performance that will contribute to long-term profitable growth. A reconciliation from the trend in reported revenue, the most directly comparable IFRS measure, to the trend in underlying revenue excluding transit, is set out below.

	Fourth quarter to 31 March 2018	Year to 31 March 2018
	%	%
Decrease in reported revenue	**(2.5)**	**(1.4)**
Specific items	(0.1)	-
Decrease in adjusted[1] revenue	**(2.6)**	**(1.4)**
Transit revenue	0.7	0.6
Acquisitions and disposals	-	0.1
Foreign exchange movements	0.5	(0.3)
Decrease in underlying[1] revenue excluding transit	**(1.4)**	**(1.0)**

Reconciliation of adjusted operating costs before depreciation and amortisation

	Fourth quarter to 31 March 2018	Year to 31 March 2018
	%	%
Decrease in reported operating costs	**(10.9)**	**(2.7)**
Depreciation and amortisation	(1.9)	(0.5)
Decrease in reported operating costs[2]	**(12.8)**	**(3.2)**
Specific items	8.5	2.0
Decrease in adjusted[1] operating costs[2]	**(4.3)**	**(1.2)**

[1] See Glossary on page 2

[2] Before depreciation and amortisation

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: our outlook for 2018/19 including revenue, EBITDA and free cash flow; capital expenditure for 2018/19 and 2019/20; share buy-back; our dividend policy; the BT Pension Scheme recovery plan and expected funding from the issuance of bonds; and our increasing network investment through Openreach's Fibre First programme and further 4G and 5G mobile network build.

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 whether as a result of the uncertainties arising from the UK's exit from the EU or otherwise; future regulatory and legal actions, decisions, outcomes of appeal and conditions or requirements in BT's operating areas, as well as competition from others; consultations and market reviews including the outcome of Ofcom's reviews of the Wholesale Local Access, Wholesale Broadband Access and Business Connectivity markets; selection by BT and its customer facing units of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs, or impact on customer service; developments in the convergence of technologies; external threats to cyber security, data or resilience; political and geo-political risks; the anticipated benefits and advantages of new technologies, products and services not being realised, including the proposed investment in our FTTP broadband network and 4G spectrum; the timing of entry and profitability of BT in certain markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the anticipated benefits, synergies and cost savings of the EE integration and other integration and restructuring plans not being delivered; the improvements to the control environment following the investigations into BT's Italian business not continuing to be operated successfully, effectively and timeously across the Group; the anticipated benefits of the evolved strategy, transformation and restructuring not being realised; the BTPS recovery plan; 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.

About BT

BT's purpose is to use the power of communications to make a better world. It is one of the world's leading providers of communications services and solutions, serving customers in 180 countries. Its principal activities include the provision of networked IT services globally; local, national and international telecommunications services to its customers for use at home, at work and on the move; broadband, TV and internet products and services; and converged fixed-mobile products and services. BT consists of six customer-facing units: BT Consumer, EE, Business and Public Sector, Global Services, Wholesale and Ventures, and Openreach.

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

For more information, visit www.btplc.com

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We will hold the fourth quarter and full year 2017/18 results presentation for analysts and investors in London at 9am today and a simultaneous webcast will be available at www.bt.com/results

We expect to publish the BT Group plc Annual Report & Form 20-F 2018 on 24 May 2018. The Annual General Meeting of BT Group plc will be held at Edinburgh International Conference Centre, The Exchange, 150 Morrison Street, Edinburgh, EH3 8EE.

We are scheduled to announce our first quarter results for 2018/19 on 27 July 2018.