Financial results

BT Group plc

Results for the full year to 31 March 2019

9 May 2019

BT Group plc (BT.L) today announced its results for the full year to 31 March 2019.

Key strategic developments

- FTTP build targets increased from 3m to 4m premises passed by March 2021; FTTP ambition increased from 10m to 15m by mid-2020s and remains subject to conditions being right
- EE to launch 5G imminently and on track to go live in 16 cities in 2019 with a range of device partners
- Continued quarterly improvement in customer experience metrics; Group NPS[1] up 6.5 points, Right First Time[2] up 5.4%
- Initiatives to transform our business are on track; restructuring programme achieved annualised cost savings of £875m

Operational:

- Openreach passed c.2m premises with Gfast and c.1.2m with FTTP; now passing c.20,000 premises with FTTP per week
- BT Plus takeup remains encouraging with around 1 million subscribers since May 2018 launch
- Consumer fixed ARPC down 0.3% in the quarter to £38.8 reflecting retail market competition; postpaid mobile ARPC down 0.9% in the quarter to £20.9 due to increased mix of SIM only; RGUs per address stable at 2.37
- Mobile churn down to 1.1% reflecting improved retention and successful device launches; fixed churn flat at 1.4%

Financial:

- Reported revenue of £23,428m and adjusted revenue of £23,459m both down 1%[4] as growth in Consumer was offset by regulated price reductions in Openreach and declines in our enterprise businesses, in particular in fixed voice
- Reported profit before tax of £2,666m, up 2%; adjusted[3] EBITDA of £7,392m, down 2%[4]
- Net cash inflow from operating activities of £4,256m, down 14% mainly due to pension deficit payments, increased capital expenditure and lower EBITDA; normalised free cash flow[3] of £2,440m, down 18%
- Capital expenditure £3,963m, up £441m, of which £213m relates to BDUK grant funding deferral including the change in take-up assumption announced in Q2, and the remainder primarily to increased investment in FTTP
- Proposed final dividend of 10.78p pence per share, giving a full-year dividend of 15.4p; unchanged on last year
- Outlook for 2019/20: adjusted[3] revenue down c.2%, adjusted[3] EBITDA £7.2bn - £7.3bn, capital expenditure[5] £3.7bn - £3.9bn and normalised free cash flow[3] of £1.9bn - £2.1bn

Philip Jansen, Chief Executive, commenting on the results, said

"BT delivered solid results for the year, in line with our guidance, with adjusted profit growth in Consumer and Global Services offset by declines in Enterprise and Openreach.

"Since joining the company three months ago, it has become clear to me just how fundamental BT's role is in connecting our society. While we are really well positioned in a very challenging and competitive UK market, we have a lot of work to do to ensure we remain successful and deliver long term sustainable value to our shareholders. We need to invest to improve our customer propositions and competitiveness. We need to invest to stay ahead in our fixed, mobile and core networks, and we need to invest to overhaul our business to ensure that we are using the latest systems and technology to improve our efficiency and become more agile.

"Our aim is to deliver the best converged network and be the leader in fixed ultrafast and mobile 5G networks. We are increasingly confident in the environment for investment in the UK. We have already announced the first 16 UK cities for 5G investment. Today we are announcing an increased target to pass 4m premises with ultrafast FTTP technology by 2020/21, up from 3m, and an ambition to pass 15 million premises by the mid-2020s, up from 10 million, if the conditions are right, especially the regulatory and policy enablers.

"For 2018/19 the Board has decided to hold the full year dividend unchanged at 15.4p per share. The Board also expects to hold the dividend unchanged in respect of the current financial year given our outlook for earnings and cash flow."

Full year to 31 March	2019 (IFRS 15)	2018 (IFRS 15 pro forma)	2018 (IAS 18)	Change
	£m	£m	£m	%
Reported measures				
Revenue	**23,428**		23,723	(1)
Profit before tax	**2,666**		2,616	2
Profit after tax	**2,159**		2,032	6
Basic earnings per share	**21.8p**		20.5p	6
Net cash inflow from operating activities	**4,256**		4,927	(14)
Full year dividend	**15.4p**		15.4p	-
Capital expenditure	**3,963**		3,522	13
Adjusted measures				
Adjusted[3] Revenue	**23,459**	23,761	23,746	(1)[4]
Change in underlying[3] revenue				(0.9)[4]
Adjusted[3] EBITDA	**7,392**	7,577	7,505	(2)[4]
Adjusted[3] basic earnings per share	**26.3p**	28.6p	27.9p	(6)[4]
Normalised free cash flow[3]	**2,440**	2,973	2,973	(18)
Net debt[3]	**11,035**	9,627	9,627	15

[1] Group NPS measures Net Promoter Score in our retail business and Net Satisfaction in our wholesale business
[2] Measured against Group-wide 'Right First Time' (RFT) index
[3] See Glossary on page 2
[4] Measured against IFRS 15 pro forma comparative period in the prior year
[5] Excluding BDUK clawback

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Customer facing unit results for the full year to 31 March 2019

	Adjusted[1] revenue			Adjusted[1] EBITDA			Normalised free cash flow[1]		
Full year to 31 March	**2019 (IFRS 15) £m**	2018 (IFRS 15 pro forma) £m	Change %	**2019 (IFRS 15) £m**	2018 (IFRS 15 pro forma) £m	Change %	**2019 (IFRS 15) £m**	2018 (IFRS 15 pro forma) £m	Change %
Consumer	**10,695**	10,379	3	**2,534**	2,369	7	**1,323**	1,354	(1)
Enterprise	**6,292**	6,653	(5)	**1,990**	2,060	(3)	**1,483**	1,569	(5)
Global Services	**4,735**	5,019	(6)	**505**	430	17	**296**	115	n/m
Openreach	**5,075**	5,285	(4)	**2,423**	2,719	(11)	**685**	1,162	(41)
Other	**3**	10	n/m	**(60)**	(1)	n/m	**(1,347)**	(1,227)	(11)
Intra-group items	**(3,341)**	(3,585)	(7)	**-**	-	-	**-**	-	-
Total	**23,459**	23,761	(1)	**7,392**	7,577	(2)	**2,440**	2,973	(18)
Fourth quarter to 31 March									
Consumer	**2,638**	2,572	3	**670**	680	(1)	**395**	479	(18)
Enterprise	**1,564**	1,679	(7)	**504**	535	(6)	**424**	469	(10)
Global Services	**1,201**	1,243	(3)	**150**	135	11	**200**	220	(9)
Openreach	**1,271**	1,320	(4)	**595**	675	(12)	**44**	251	(82)
Other	**(1)**	2	n/m	**(80)**	11	n/m	**(360)**	(393)	(8)
Intra-group items	**(820)**	(890)	(8)	**-**	-	-	**-**	-	-
Total	**5,853**	5,926	(1)	**1,839**	2,036	(10)	**703**	1,026	(31)

Performance against 2018/19 outlook

	2018/19 outlook	**2018/19 Performance**
Change in underlying[1] revenue (IFRS 15 basis)	**Down c.2%**	**Down 0.9%**
Adjusted[1] EBITDA	**£7.3bn - £7.4bn**	**£7.4bn**
Capital expenditure[2]	**c.£3.7bn**	**£3.8bn**
Normalised free cash flow[1]	**£2.3bn - £2.5bn**	**£2.4bn**

[1] See Glossary below
[2] Excluding BDUK clawback
n/m = not meaningful

Glossary of alternative performance measures

Adjusted	Before specific items
EBITDA	Earnings before interest, tax, depreciation and amortisation
Adjusted EBITDA	EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense
Free cash flow	Net cash inflow from operating activities after capital expenditure
Capital expenditure	Additions to property, plant and equipment and intangible assets in the period
Normalised free cash flow	Free cash flow after net interest paid, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items
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. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed.
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 6 on page 26
Underlying	Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals. Further information is provided in note 1 on page 36

We assess the performance of the group using a variety of alternative performance measures. The rationale for using adjusted measures is explained in note 1 on page 36. Results on an adjusted basis are presented before specific items. Reconciliations from the most directly comparable IFRS measures are in Additional Information on pages 36 to 38.

Overview of the year to 31 March 2019

STRATEGIC AND OPERATIONAL UPDATE

Market conditions remain challenging in the UK across both fixed and mobile markets, and at the same time consumers are spending less on telecoms connectivity whilst consuming exponentially more data. We have significant room to improve our processes, systems, efficiency and service and a step change is needed in how customers feel about our brands, our service and our propositions.

We are well positioned to respond to these challenges. We have strong brands, the best network positions, and unrivalled sales and service capabilities. We are taking decisive actions to improve our competitive position. We have strong foundations on which to build a better BT for the future, focussing on our three core priorities: delivering a differentiated customer experience; building the best converged network; and creating a simplified, lean and agile business.

Differentiated customer experience

Creating a differentiated customer experience through investing in the quality of our service, the performance of our network and converged products is central to our strategy. Our customers' overall perception of BT improved for the eleventh successive quarter with Group NPS[1] increasing by 6.5 points when compared to the prior year baseline. Our 'Right First Time'[2] performance, which measures the consistency and quality of our service, increased by 5.4% from the same baseline period. We have been recognised externally in the 2019 uSwitch Awards with wins for Plusnet (Best Provider Customer Service) and EE (Most Popular Network) and in the latest RootMetrics study of mobile network performance which once again ranked EE best, a position held since 2013.

Service

Openreach delivered a record service performance for voice and broadband products in Q4, offering a service provision first appointment date within 12 days to 99% of customers, an improvement from 92% in Q4 2017/18. The levels of missed appointments, where Openreach was at fault, was maintained at an all-time low of 1.7% over the quarter, a third fewer than last year. Openreach met all 42 copper and fibre Minimum Service Level (MSL) measures set by Ofcom.

Openreach's proactive maintenance programme has continued to reduce the number of faults in the UK copper network, delivering a 2% reduction over the full year compared to 2017/18. Fewer network faults combined with improved operational planning has helped increase on time repair performance for voice and broadband products from 81% in Q4 2017/18 to 86% in the same period 2018/19.

Consumer is investing to improve customer experience. In Q4, 100% of our EE and Plusnet service calls and 83% of our BT service calls were answered in the UK and Ireland, as we work towards having all call centres based in the UK and Ireland from 2020. In the year we also announced a move to annual CPI price changes for BT brand fixed and mobile customers to improve pricing clarity.

Consumer has seen an 8% reduction in customer service contacts this quarter compared to Q4 2017/18 and continues to drive growth in digital engagement. My BT registrations are up by a third to 3m, MyEE registrations are up 10% to 12m, and over a third of the Plusnet mobile base have installed its app within the first six months since launch. In addition, we now have nearing 3.4m customers using our Call Protect product preventing over 220m unwanted calls since launch in January 2017.

Customer complaints to Ofcom reduced by a third for both BT's consumer broadband and EE's mobile customers when measured on a year on year basis. From 1 April, Consumer will automatically compensate BT brand customers if we miss our provision or repair promises. EE will join in 2020 with Plusnet to follow.

Enterprise has implemented a number of programmes to improve customer satisfaction across all of its segments. We have enhanced our customer feedback mechanisms using the data to drive simplification of the sales, set-up and service process. Our digital channel adoption is strong, growing 8% year on year, and the reach of the BT Business app was further extended in April when it was made available on iPad and Android tablets.

Global Services' NPS scores have increased 39 points compared to the 2016/17 baseline as a result of efforts to enhance customer experience in areas including account management, quoting and service delivery performance.

[1] Group NPS measures Net Promoter Score in our retail business and Net Satisfaction in our wholesale business
[2] Measured against Group-wide 'Right First Time' (RFT) index

Products

BT Plus now has around 1 million subscribers, and take-up of our latest converged consumer product, BT Plus with Complete Wi-Fi, has been encouraging.

BT Sport had increased viewing across all platforms, driven by a 4% year on year audience increase for English Premier League coverage and an 18% year on year increase for UEFA Champions League coverage.

BT's 4G Assure broadband product for business remains popular with half of all new SME broadband customers taking this service.

EE Smart Plans were launched in May, offering tiered service and content benefits to drive value through more-for-more pricing. EE also announced it will offer all pay monthly mobile customers six months Amazon Prime Video and MTV Play subscriptions with inclusive mobile data, in addition to the existing Apple Music and BT Sport offers.

In March, Enterprise presented a business briefing that reiterated BT's position as the UK's leading B2B communications provider and 'first choice consideration' for 30% of the enterprise market. The briefing set out Enterprise's six key priorities aligned to market opportunities and customer needs, these being maximising market reach; providing straightforward and reliable customer experience; leading the migration to IP; innovating in converged products and new propositions; leveraging the UK's best networks; and simplifying operations and optimising sales.

Best converged network

Mobile network

EE plans to launch 5G imminently and remains on track to expand coverage to 16 cities in 2019 with a range of device partners. The initial phase will be in the UK's four capital cities plus Birmingham and Manchester, followed by the busiest areas of 10 more cities, on 1,500 existing 4G sites.

Fixed network

Expansion of Openreach's ultrafast broadband fibre network continues, with over 3.2m premises passed to date. This includes c.2.0m premises passed with Gfast and c.1.2m with FTTP. Openreach completed a record 2.4m fibre broadband net connections in the year and now has more than 12.2m homes and businesses connected to fibre products.

Openreach passed an average of c.14,000 homes and businesses with FTTP every week in 2018/19 under its 'Fibre First' programme, and during Q4 accelerated its build rate to c.20,000 premises passed per week. Openreach continues to deliver FTTP at the lower end of its £300 - £400 per premises passed cost range and believes that it can pass around 50% of UK premises within this range of costs. This, coupled with increasing take up of faster speeds, including ultrafast speeds, the launch of new consumer and business products requiring higher bandwidth, and positive steps from Ofcom towards creating a clear, predictable long-term framework to support investment in the UK's digital infrastructure are all encouraging developments. As a result, Openreach is increasing and accelerating its FTTP investment to now deliver 4 million FTTP premises passed by March 2021, up from 3 million FTTP premises passed, and has the ambition to pass 15 million FTTP premises by the mid-2020's, up from 10 million FTTP premises, if the conditions are right – especially the regulatory and Government's policy enablers, including support for wayleaves and extension of business rate relief.

Openreach is currently progressing FTTP build in 26 locations. In April, Openreach announced a further 12 locations to benefit from FTTP availability in the next 12 months, bringing the total to 38.

Openreach launched their revised Physical Infrastructure Access (PIA) product on 1 April 2019.

Openreach is continuing to invest heavily in people, training and systems. This year it hired around 3,500 more trainee engineers to support network deployment and service improvements and will hire a further 2,700 next year, of which around 1,400 are newly created roles.

In March 2019, Openreach launched a consultation to seek views from communications providers ('CPs') on how best to migrate their retail customers from copper connections onto FTTP, and the process for withdrawing legacy services. The consultation closed on 3 May and Openreach expects to provide a response to CPs in June 2019.

Simplified, lean and agile business

Our cost transformation programme remains on track, with c.4,000 roles were removed in the year, the largest elements being in Global Services and our Corporate Units. Savings from the programme are currently an annualised benefit of £875m with an associated cost of £386m.

Outsourcing of our UK and Republic of Ireland facilities management and projects and construction teams took effect on 1 April 2019. This has resulted in approximately 1,900 employees transferring out of BT.

In addition to the transformation savings, our strategic sourcing delivered significant annual procurement savings, with the benefits largely deployed to offset price inflation and the increased volumes associated with our capex plans. We reduced the number of suppliers by a thousand during the year, and will continue to rationalise our supplier base in order to leverage our scale and reduce risk. We are progressively securing better value multi-year deals by building longer term partnerships with our major suppliers.

Scoping work to determine the extent of the potential benefits from simplifying and fixing many of BT's processes has started. Transforming these processes will deliver significant benefits including: increasing our NPS; driving incremental revenue and cost savings; and improving employee engagement.

Regulation

Delivering a more independent Openreach

In June and November 2018 Ofcom published reports on progress towards delivering a more independent Openreach, in which it updated on its view of steps taken towards implementing the legal separation of Openreach Limited from BT Group. In the most recent report, Ofcom stated that it remained "broadly satisfied with progress" and that "significant progress has been made and the Commitments have now been fully implemented in BT and Openreach." Ofcom intends to publish a full compliance report in June 2019 covering the period April 2018 to March 2019.

Business Connectivity Market Review (BCMR)

In November 2018 Ofcom launched a consultation on its review of the business connectivity market setting out proposals for regulation during the period April 2019 to March 2021. Ofcom proposes that all traditional interface services are deregulated, while Very High Bandwidth Ethernet and Optical services will be subject to a charge control for the first time – albeit at nominally flat prices. Ofcom is proposing that the Central London Area (CLA) should continue to be deregulated in the Access Market, while in the Inter-exchange market BT exchanges with two or more Principal Core Operators (PCO) are proposed to be deregulated. There are also proposals to require Openreach to offer dark fibre connections (at cost) between exchanges where one end is a BT–only exchange. We responded to the consultation on 18 January and Ofcom expects to publish its final conclusions in Q1 2019/20.

Physical Infrastructure Market Review (PIMR)

In November 2018 Ofcom proposed a new physical infrastructure market definition, asserting that BT has significant market power in all four distinct geographic markets; and that Openreach must provide unrestricted access to its duct and poles across all four markets from spring 2019. Rental prices were proposed to be set at the levels already notified by Openreach to come into force from April 2019. We submitted our response to these proposals on 18 January 2019 and we expect a statement towards the end of Q1 2019/20.

Consultation on initial proposals on defining geographic markets

In December 2018 Ofcom set out its proposed high level approach to defining geographic markets in preparation for the Single Fixed Telecoms Market Review covering the period 2021-2026 (when Ofcom will consider all markets downstream of physical infrastructure as part of a single market review, lasting five not three years). Ofcom intends to vary regulation by geography depending on the number of competing fibre providers in a particular geographic area. It proposes to split the UK into: competitive areas (with at least three networks present); potentially competitive areas (where fibre commercial investment by alternative providers is likely to be viable); and non-competitive areas (where there are no viable alternative networks to Openreach and significant rollout is unlikely). We submitted our response to these proposals on 26 February 2019. We are expecting that Ofcom will include its proposals in the Single Fixed Telecoms Market Review in Q3 2019/20.

Consultation on initial proposals on approach to determining regulatory remedies

In March 2019 Ofcom proposed a high level approach to determining regulatory remedies in preparation for the Single Fixed Telecoms Market Review covering the period starting in 2021. It proposed charge controls in line with its objective to support investment by alternative providers and Openreach in potentially competitive areas, and to facilitate Openreach build in non-competitive areas. Ofcom is requesting responses by 7 June 2019 with a view to publishing detailed and comprehensive regulatory proposals before the end of this calendar year.

Consumer engagement

In February 2019 we responded to Ofcom's consultation on end-of-contract and annual best tariff notifications, largely supporting the proposals. We expect Ofcom to launch a review of broadband pricing in Q2 2019/20. In Q1 2019/20, we expect Ofcom to publish a second consultation on bundled mobile airtime and handset contracts; and in Q1 2019/20 the CMA is due to provide an update on progress on the Citizens Advice super-complaint (which includes pricing of mobile handsets and fixed broadband at end of contract) to the newly established joint government-regulator Consumer Forum. We have been engaging with Ofcom on both issues.

Spectrum

In March 2019 we responded to Ofcom's consultation on the structure for its spectrum auction for the 700MHz and 3.6-3.8GHz band including the opportunity to bid for a discount in return for accepting coverage obligations. Ofcom has indicated that it will invite applications to participate around December 2019 with the auction completed by spring 2020. BT also responded to Ofcom's proposals to open three new mobile bands for shared use and to introduce shared spectrum access for new users that is licenced on a national basis to mobile operators in locations where it is not yet used.

Rural network coverage

We consider Ofcom's plans to attach coverage obligations to new mobile spectrum to be good in principle, but believe they would not overcome the barriers to expanding network coverage. We have proposed a cross-industry Rural Mobile Coverage Pledge to address areas with partial coverage in a fair and equitable manner, and to deliver a unified approach to mobile notspots. Our proposed plans would give local communities in areas of zero coverage the right to ask for coverage, to work with local councils and operators to identify locations and permissions, and to establish mobile signal where it is needed most. This requires Government support to overcome planning challenges and unlock funding, offer better access to public building rooftops, and approval for deploying taller mobile masts.

Automatic Compensation

On 1 April 2019 we launched the scheme agreed with Ofcom and other major industry players to provide proactive compensation to consumers for missed engineer appointments, delayed service provision and delayed fault repair.

Spectrum annual licence fees

Annual fees for 1800MHz spectrum have increased from 31 January 2019 following Ofcom's final statement and introduction of new fees regulations in December 2018. BT is continuing to seek, through ongoing legal proceedings, repayment of overpaid fees that were charged during the period 2015-2017 under the previous 2015 fees regulations that were quashed by the Court of Appeal in 2017. The Court hearing took place in early May 2019; judgment is awaited.

Broadband Universal Service Obligation (USO)

In September 2018 we responded to Ofcom's initial consultation indicating that BT is willing to be designated as a broadband Universal Service Provider (USP), subject to various dependencies. Ofcom issued a further consultation in December proposing to designate BT and KCOM as USPs, and consulting on the specific USO conditions. We also responded to this consultation and highlighted our concerns about the timescales Ofcom have proposed for setting up the new customer service processes and to deliver the necessary network build, as well as the introduction of a retail safeguard cap for the USO service. We have also asked Ofcom for greater clarity over the form and timing of the recovery of costs. We continue to work with Ofcom to progress these issues prior to the final statement which is expected in the summer.

Future of regulation study

In April 2019 we responded to a call for evidence from the National Infrastructure Commission looking at the future of regulation to facilitate further investment in infrastructure. Our response calls for Ofcom to set out a long-term market vision, and a more deliberate forward looking approach to regulation, recognising and responding to convergence trends. Our response also supports clear Government guidance to regulators on trade-offs that have societal implications, for example when balancing long term investment and short term consumer prices, and reiterates the need for predictability and consistency in the application of principles of economic regulation. We remain open to the idea of further institutional reform (for example, the creation of a multi-utility regulator) but believe more work is needed on the relative costs and benefits of this and alternative models.

Other matters

Brexit

There continues to be significant uncertainty regarding the UK's vote to leave the European Union. We have plans in place to ensure that we're prepared for the final outcome of negotiations between the UK and the EU, including the possibility of a no deal Brexit. Our contingency planning is focussed on ensuring we can continue to provide uninterrupted service to our customers, including sufficient inventory to protect against potential import delays. We are also making the necessary changes to our contracts and processes so that we will continue to be able to transfer customer data to and from the EU. A disorderly exit could have a damaging impact on consumer and business confidence. It is too early to estimate the size of any potential impact.

Outlook for 2019/20

BT remains well positioned in a challenging market. We are taking decisive actions to further strengthen our competitive position. Specifically, we are increasing investment to: introduce new customer propositions; deliver fair, predictable and competitive pricing; accelerate migration of copper ADSL to superfast; drive the next step change in customer experience investment; ramp up FTTP to 4m by March 2021; and accelerate 5G coverage. These actions will impact our outlook.

For 2019/20, we expect adjusted revenue to be down around 2%. This is mainly as a result of the challenging market conditions, regulatory pressure in both fixed and mobile markets, and the ongoing impact from our decision to de-emphasise lower margin products, particularly in our enterprise businesses.

Along with the flow through of lower revenue, we expect our opex investments to result in Group adjusted EBITDA for 2019/20 being in the range £7.2bn – £7.3bn. While we will sustain these opex investments into 2020/21, we continue to expect Group adjusted EBITDA for 2020/21 to be above that for 2019/20.

We are raising our reported capital expenditure guidance (excluding BDUK clawback) for 2019/20 to be in a range of £3.7bn – £3.9bn. We expect normalised free cash flow for 2019/20 to out-turn in the range £1.9bn – £2.1bn.

	2019/20 outlook
Change in adjusted[1] revenue	**Down c.2%**
Adjusted[1] EBITDA	**£7.2bn - £7.3bn**
Capital expenditure[2]	**£3.7bn - £3.9bn**
Normalised free cash flow[1]	**£1.9bn - £2.1bn**

[1] See Glossary on page 2
[2] Excluding BDUK clawback

Dividend

We have delivered solid results for 2018/19 and are making positive progress against our core pillars; to improve customer experience, to create the best converged network; and to create a simplified, lean and agile business. This is being delivered in an increasingly competitive market environment with a number of regulatory and other headwinds. We remain confident in our ability to deliver the benefits we expect from the decisive actions we are taking to strengthen our competitive position.

As a result, the Board has decided to hold the dividend unchanged for 2018/19 at 15.4p per share, leading to a final dividend of 10.78p per share. The Board also expects to hold the dividend unchanged in respect of the 2019/20 financial year given our outlook for earnings and cash flow.

The Board remains committed to our dividend policy, which is to maintain or grow the dividend each year whilst taking into consideration a number of factors including underlying medium term earnings expectations and levels of business reinvestment (which would include the consideration of accelerated FTTP investment).

In line with previous guidance, our interim dividend for 2019/20 will be fixed at 30% of this year's full year dividend.

Subject to shareholder approval, the dividend will be paid on 9 September 2019 to shareholders on the register at 9 August 2019. The ex-dividend date is 8 August 2019. The election date for participation in BT's Dividend Investment Plan in respect of this dividend is 23 August 2019.

The final dividend, amounting to approximately £1,069m (2018/19: £1,044m), will be recognised as an appropriation of the retained earnings in the quarter to 30 September 2019.

The final dividend for the year to 31 March 2018 of 10.55p, was approved at the Annual General Meeting on 11 July 2018 and paid on 3 September 2018.

Principal risks and uncertainties

A summary of the Group's principal risks and uncertainties is provided in note 9.

Key operational metrics for the fourth quarter to 31 March 2019

Our key operational metrics are as follows:

Fourth quarter to 31 March	2019	2018
Consumer		
Average revenue per customer (ARPC) (£ per month)		
- Fixed	38.8	38.9
- Postpaid mobile	20.9	21.1
- Prepaid mobile	7.9	8.2
Monthly churn		
- Fixed	1.4%	1.4%
- Postpaid mobile	1.1%	1.2%
Fibre share of broadband base		
- Superfast	72.9%	64.0%
Revenue generating units per address	2.37	2.37
Enterprise		
Number of products/customers ('000)		
- Voice lines	1,997	2,282
- VoIP seats	569	434
- Retail broadband lines	762	805
- Wholesale broadband lines	748	747
- WAN circuits	50.3	46.6
- Ethernet circuits	82.9	81.4
- Private circuits	38.0	43.5
- Mobile customers	3,598	3,521
- MVNO customers	3,776	3,731
Call minutes (millions)		
- Retail	889	1,016
- Wholesale	884	1,065
Fibre share of broadband base		
- Superfast	45.9%	39.5%
Rolling 12-month retail order intake (£m)	2,889	3,391
Rolling 12-month wholesale order intake (£m)	1,017[1]	1,312
Global Services		
Rolling 12-month order intake (£m)	3,286	3,845
Openreach		
Network deployment ('000 premises passed)		
Superfast inc. ultrafast	27,479	26,944
- of which ultrafast Gfast	2,020	1,015
- of which ultrafast FTTP	1,247	567

[1] Inclusive of restatement of Q3 2018/19 order intake, restated following review

BT Group plc

Group results for the full year to 31 March 2019

Income statement

Reported revenue was £23,428m, down 1%, and adjusted[1] revenue was down 1%[2] as growth in our Consumer business was more than offset by regulated price reductions in Openreach and declines in our enterprise businesses, in particular in fixed voice, and also reflecting our strategy to reduce low margin activity such as equipment sales.

Reported operating costs were £20,007m, down 1%, and adjusted[1] operating costs were down 0.4% mainly driven by restructuring related cost savings and lower payments to telecommunications operators driven by Global Services strategy to de-emphasise low margin business. This was partly offset by higher costs of recruiting and training engineers to support Openreach's 'Fibre First' programme and help deliver improved customer service, and a number of one-off items. Adjusted[1] EBITDA of £7,392m was down 2%[2].

Reported profit before tax was up 2% at £2,666m, reflecting the cost of settling one-off EE acquisition warranty claims in the prior year. Adjusted[1] profit before tax was down 6%[2] at £3,230m, reflecting the lower revenue partly offset by the lower costs and higher net finance expense from increased net debt.

Specific items (Note 6 to the condensed consolidated financial statements)

Specific items resulted in a net charge after tax of £452m (2017/18: £741m). The main components include restructuring costs of £386m (2017/18: £287m) and interest expense on pensions of £139m (2017/18: £218m), offset by tax credit on specific items of £112m (2017/18: £87m). Our prior year comparative included £225m relating to the settlement of warranty claims arising under the 2015 EE acquisition agreement.

Tax

The effective tax rate was 19.0% on reported profit and 19.2% on profit before specific items.

Capital expenditure

Capital expenditure was £3,963m (2017/18: £3,522m), including network investment of £2,083m, up 21%. This includes £213m grant funding deferral under the Broadband Delivery UK (BDUK) programme, of which £168m relates to the change in base-case assumption for customer take-up announced in Q2. Excluding the effect of the grant funding deferral, capital expenditure was £3,750m. The remaining increase in network investment reflects increased spend on our Fibre Cities programme, partially offset by lower mobile investment as the Emergency Services Network (ESN) passed the peak deployment phase. Our BDUK Gainshare provision at the end of the year was £639m.

Other capital expenditure components were up 5% with £929m spent on customer driven investments, £747m on systems and IT, and £204m spent on non-network infrastructure.

Free cash flow

Net cash inflow from operating activities was down £671m at £4,256m mainly driven by £2bn contributions to the BT Pension Scheme, increased capital expenditure and lower EBITDA. Normalised free cash flow[1] was down £533m at £2,440m. A reconciliation to our free cash flow is shown in Additional Information on page 37.

The net cash cost of specific items was £598m (2017/18: £828m). This includes restructuring payments of £372m (2017/18: £189m) and regulatory payments of £170m (2017/18: £267m). Our prior year also included payments of £225m relating to the settlement of warranty claims arising under the 2015 EE acquisition agreement.

Net debt and liquidity

Net debt[1] was £11,035m at 31 March 2019, £1,408m higher than at 31 March 2018 (£9,627m), mainly reflecting the £2bn contributions to the BT Pension Scheme following the issuance of £2bn of bonds to the BT Pension Scheme in June 2018. We also issued bonds of £2bn in September 2018 and December 2018, and repaid £1.4bn of bonds at maturity in August 2018 and February and March 2019.

At 31 March 2019 the group held £4.9bn of cash and current investment balances. £1.8bn of short term borrowings include £1.1bn term debt and £0.7bn collateral for open mark to market positions and overdrafts. Our £2.1bn committed facility, which matures in September 2021, remains undrawn at 31 March 2019.

[1] See Glossary on page 2

[2] Measured against IFRS 15 pro forma comparative period in the prior year

Pension (Note 7 to the condensed consolidated financial statements)

The IAS 19 pension position at 31 March 2019 was a deficit of £6.0bn net of tax (£7.2bn gross of tax), compared with £5.0bn net of tax (£6.0bn gross of tax) at 31 December 2018 and £5.7bn net of tax (£6.8bn gross of tax) at 31 March 2018. The increase in the gross deficit of £0.3bn since 31 March 2018 mainly reflects an increase in the liabilities due to a fall in the real discount rate, partly offset by deficit contributions and positive asset returns.

In October 2018, a High Court judgment involving the Lloyds Banking Group's defined benefit pension schemes was handed down impacting most UK defined benefit schemes. The judgment concluded schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits, leading to the group recognising an additional liability of £26m.

In December 2018, the Court of Appeal upheld the High Court's ruling that it is currently not possible to change the index used to calculate pension increases paid in the future to members of Section C of the BTPS from RPI to another index. BT is seeking permission to appeal the decision from the Supreme Court.

IFRS 16

IFRS 16, the new accounting standard for leases, is effective for the group from 1 April 2019. The standard will require us to recognise a right-of-use asset and lease liability on the balance sheet for all leases unless certain exemptions are available. We expect to recognise lease liabilities of between £5.6bn - £6.6bn as a result of bringing operating lease commitments onto the balance sheet.

Under IFRS 16, EBITDA is expected to increase because operating lease expense will be replaced by interest expense and depreciation. Profit after tax will see a reduction in the periods immediately following transition, driven by interest expense charged in respect of the new leases being 'frontloaded' when compared to the previously straight-line operating lease expense.

Further details on the anticipated impact of the standard are set out in note 1 of the condensed consolidated financial statements (page 21).

Pro forma

For 2019/20 we will adjust our methodologies used to recharge fixed overhead costs, reported within EBITDA, to refine the allocation of costs across our operating units following the recent creation and development of the Consumer and Enterprise units as well as the formation of Openreach Limited as part of the implementation of the DCR Commitments. We will also transfer the ESN contract from Consumer to Enterprise. There will be no impact on a Group basis from these changes, but they will impact segmental results.

We will publish a pro forma set of external KPIs during Q1 2019/20 showing the impact of the proposed changes, together with the pro forma impact of IFRS16.

Operating review

Consumer

	Fourth quarter to 31 March				Full year to 31 March			
	2019	2018 (IFRS 15) [2]	Change		**2019**	2018 (IFRS 15) [2]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[1]	**2,638**	2,572	66	3	**10,695**	10,379	316	3
Operating costs	**1,968**	1,892	76	4	**8,161**	8,010	151	2
EBITDA[3]	**670**	680	(10)	(1)	**2,534**	2,369	165	7
Depreciation & amortisation					**1,024**	992	32	3
Operating profit					**1,510**	1,377	133	10
Capital expenditure					**994**	919	75	8
Normalised free cash flow					**1,323**	1,354	(31)	(2)

We continue to experience challenging trends in both the high-end smartphone market and in the broadband market. However, with leading mobile and fixed networks, improving customer experience, three strong brands and further enhancements to BT Plus, with 5G coming imminently, we are well placed for the future.

As identified in our Q3 results, we do expect to be impacted next year by a number of headwinds, including increases in annual spectrum licence fees, mobile spend caps, international calls regulation and automatic compensation for fixed customers.

Revenue growth for the year was driven by the continued increase in handset costs for customers, growth in the SIM-only base across all brands and the impact of price increases, partially offset by solus voice price reductions.

EBITDA grew 7% for the year as the revenue growth was partially offset by increased trading costs. EBITDA was down 1% in Q4 reflecting increased trading costs, partly offset by a number of one-off credits.

Capital expenditure growth was driven by increased network spend as preparations were made for the EE 5G launch in 2019. Normalised free cash flow was £1,323m, down on last year as the increase in EBITDA was offset by the settlement at the start of the year of the Phones 4U dispute relating to the retail agreement, and increased capital expenditure.

Mobile churn dropped to 1.1% following improved retention processes and successful device launches, whilst fixed churn was flat at 1.4%.

In May, we launched EE Smart Plans to expand our differentiation and drive value through more-for-more offers. The handset plans come with Swappable Benefits to increase value and encourage migration from SIM-only, whilst both handset and Smart SIM plans offer a Service Pack including annual device 'health checks', accessory vouchers and extended device warranties.

We also launched BT's new Stay Fast Guarantee to improve customer experience and reduce churn. We'll optimise connection performance for new and re-contracting customers and then monitor and proactively manage connection quality, offering £20 compensation if we cannot fix speed issues.

EE continues to be recognised as the UK's leading mobile network in independent surveys, including amongst others the H2 2018 RootMetrics survey which named EE as the best mobile network.

[1] Adjusted (being before specific items). See Glossary on page 2
[2] IFRS 15 pro forma used for comparative period in the prior year
[3] Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 2

Enterprise

	Fourth quarter to 31 March				Full year to 31 March			
	2019	2018 (IFRS 15)[2]	Change		**2019**	2018 (IFRS 15)[2]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[1]	**1,564**	1,679	(115)	(7)	**6,292**	6,653	(361)	(5)
- underlying revenue[3]				(6)				(5)
Operating costs[1]	**1,060**	1,144	(84)	(7)	**4,302**	4,593	(291)	(6)
EBITDA[4]	**504**	535	(31)	(6)	**1,990**	2,060	(70)	(3)
Depreciation & amortisation					**634**	636	(2)	-
Operating profit[1]					**1,356**	1,424	(68)	(5)
Capital expenditure					**501**	492	9	2
Normalised free cash flow					**1,483**	1,569	(86)	(5)

The UK and Ireland business-to-business market remains challenging. The main headwind we face is the decline in traditional calls and lines where we have a relatively high market share. The IP Voice market is significantly more fragmented, with a large number of providers, and we are focused on expanding our share in this growing market. The mobile market remains competitive and we continue to see pressure on pricing. While overall growth in the broadband market is limited, we are seeing good demand for our premium products such as fibre and 4G Assure. Newer areas such as the Internet of Things, Cloud, SDWAN and security remain good opportunities for us over the longer term.

Revenue decreased for the year mainly due to the ongoing decline of fixed voice revenue which fell 12%. We continue to see a steeper than expected reduction in calls per fixed line as usage moves to mobile and IP. We continue to sell less low margin equipment and also experienced ongoing declines in some of our other legacy products such as private circuits. This was partially offset by growth in IP, Mobile and networking, with Mobile revenue growing 2% reflecting steady growth in the base. We're also continuing to see encouraging growth in messaging volumes in Ventures.

Operating costs were down 6%, helped by labour cost efficiencies from our cost transformation programmes. EBITDA decreased, with our lower cost base more than offset by the reduction in revenue. The Q4 EBITDA decline, which is steeper than for the year as a whole, reflects a strong comparator from the prior year.

Capital expenditure increased 2% and normalised free cash flow decreased 5%, reflecting the reduction in EBITDA and the higher capital expenditure.

The retail order intake decreased 15% to £2.9bn for the year due to the signing of a large contract in the Republic of Ireland in the prior year. The wholesale order intake declined 22% to £1.0bn after 2017/18 benefitted from a number of large deals, including the timing of some contract renewals.

[1] Adjusted (being before specific items). See Glossary on page 2
[2] IFRS 15 pro forma used for comparative period in the prior year
[3] Underlying revenue excludes acquisitions, disposals and foreign exchange
[4] Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 2

Global Services

	Fourth quarter to 31 March				Full year to 31 March			
	2019	2018 (IFRS 15) [2]	Change		**2019**	2018 (IFRS 15) [2]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[1]	**1,201**	1,243	(42)	(3)	**4,735**	5,019	(284)	(6)
- underlying revenue[3]				(2)				(4)
Operating costs	**1,051**	1,108	(57)	(5)	**4,230**	4,589	(359)	(8)
EBITDA[4]	**150**	135	15	11	**505**	430	75	17
Depreciation & amortisation					**370**	424	(54)	(13)
Operating profit					**135**	6	129	n/m
Capital expenditure					**245**	278	(33)	(12)
Normalised free cash flow					**296**	115	181	157

Global Services operates in a global market that continues to experience high levels of change driven by both rapid technology innovation and a dynamic competitive landscape. Customers' demands continue to evolve towards more flexible, on-demand models and new cloud-based and software-defined networking solutions. We continue to execute our Digital Global Services transformation programme to focus our business, standardise our operations, transform our underlying infrastructure, and provide innovative solutions to address the changing demands of our customers. We are focussed on around 800 multinational companies and financial institutions served by three global industry verticals.

Revenue for the year was down 6%, reflecting our strategy to de-emphasise low margin business and the impact of divestments in the year, combined with a £35m negative impact from foreign exchange movements. Underlying revenue was down 4% for the year, primarily reflecting lower IP Exchange volumes and equipment sales. Despite these declines, revenue growth in our Security business is up 19% year-on-year, a reflection that we continue to be seen as a trusted partner of choice to solve our customers' security challenges.

Operating costs for the year were down 8% mainly reflecting the decline in IP Exchange volumes and equipment sales and lower labour costs from our ongoing restructuring programme. EBITDA for the year was up £75m reflecting the reduction in operating costs and certain one-offs, more than offsetting the impact of lower revenues.

Depreciation and amortisation was down 13% for the year due to closure of certain projects in the prior year.

Capital expenditure was down 12% for the year reflecting ongoing rationalisation and our strategy to become a more asset-light business. Normalised free cash flow for the year improved by £181m to an inflow of £296m, reflecting higher EBITDA, lower capital expenditure and improved working capital.

The total order intake in the quarter was £1.0bn, down 3%. On a rolling 12-month basis it was £3.3bn, down 15% year on year continuing to reflect a shift in customer behaviour, including shorter contract lengths and greater prevalence of usage-based terms.

[1] Adjusted (being before specific items). See Glossary on page 2
[2] IFRS 15 pro forma used for comparative period in the prior year
[3] Underlying revenue excludes acquisitions, disposals and foreign exchange
[4] Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 2

Openreach

	Fourth quarter to 31 March				Full year to 31 March			
	2019	2018 (IFRS 15) [2]	Change		**2019**	2018 (IFRS 15) [2]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[1]	**1,271**	1,320	(49)	(4)	**5,075**	5,285	(210)	(4)
Operating costs	**676**	645	31	5	**2,652**	2,566	86	3
EBITDA[3]	**595**	675	(80)	(12)	**2,423**	2,719	(296)	(11)
Depreciation & amortisation					**1,468**	1,400	68	5
Operating profit					**955**	1,319	(364)	(28)
Capital expenditure					**2,081**	1,699	382	22
Normalised free cash flow					**685**	1,162	(477)	(41)

Openreach has a UK-wide presence which is overlapped by our competitors in around half the country. This overlap is expected to grow as alternative network providers build-out new fibre footprint. Our volume discount deal, signed with the majority of our major communications provider customers, has led to another record quarter for fibre sales. We are also rapidly expanding our fibre-to-the-premises network to provide the next generation of services for our customers. We have experienced strong demand from businesses for Ethernet circuits for the second consecutive quarter.

Revenue decline for the year was driven by around £213m of regulated price reductions predominantly on FTTC and Ethernet products, £159m of non-regulated price reductions, mainly driven by the impact of Openreach's commercial offer of fibre volume discounts, and a small decline in our physical line base. This was amplified by a one-off accounting benefit, on a pro forma basis in the prior year, due to a change in the contract terms of our FTTC connections. This was partly offset by 25% growth in our fibre rental base and a 9% increase in our Ethernet rental base.

Operating costs were 3% higher, mainly driven by higher costs from recruiting and training engineers to support our 'Fibre First' programme and help improve customer service, as well as pay inflation and business rates, partly offset by efficiency savings. EBITDA was down 11% for the year reflecting the decreased revenue and increase in costs.

Capital expenditure was £2.1bn, up £382m or 22%, driven by investment in our FTTP and Gfast network build and higher year-on-year BDUK net grant funding deferrals, partly offset by efficiency savings.

Normalised free cash flow was down 41% due to the EBITDA decline, higher underlying capital expenditure (excluding BDUK grant funding deferrals) and timing of customer receipts.

[1] Adjusted (being before specific items). See Glossary on page 2
[2] IFRS 15 pro forma used for comparative period in the prior year
[3] Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 2

Financial statements

Group income statement

For the full year to 31 March 2019 (IFRS 15 basis)

	Note	Before specific items ('Adjusted')	Specific items (note 6)	Total (Reported)
		£m	£m	£m
Revenue	3,4	23,459	(31)	**23,428**
Operating costs	5	(19,613)	(394)	**(20,007)**
Operating profit		3,846	(425)	**3,421**
Finance expense		(651)	(139)	**(790)**
Finance income		34	-	**34**
Net finance expense		(617)	(139)	**(756)**
Share of post tax profit of associates and joint ventures		1	-	**1**
Profit before tax		3,230	(564)	**2,666**
Tax		(619)	112	**(507)**
Profit for the period		2,611	(452)	**2,159**
Earnings per share				
- basic		26.3p	(4.5)p	**21.8p**
- diluted		26.1p	(4.5)p	**21.6p**

Group income statement

For the full year to 31 March 2018 (IAS 18 basis)

	Note	Before specific items ('Adjusted')	Specific items (note 6)	Total (Reported)
		£m	£m	£m
Revenue	3,4	23,746	(23)	23,723
Operating costs	5	(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 of associates and joint ventures		(1)	-	(1)
Profit before tax		3,444	(828)	2,616
Tax		(671)	87	(584)
Profit for the period		2,773	(741)	2,032
Earnings per share				
- basic		27.9p	(7.4)p	20.5p
- diluted		27.8p	(7.4)p	20.4p

Group statement of comprehensive income

	Full year to 31 March	
	2019 (IFRS 15) £m	2018 (IAS 18) £m
Profit for the period	**2,159**	2,032
Other comprehensive income (loss)		
Items that will not be reclassified to the income statement:		
Remeasurements of the net pension obligation	**(2,102)**	1,684
Tax on pension remeasurements	**384**	(263)
Items that have been or may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**64**	(188)
Fair value movements on available-for-sale assets	**-**	11
Fair value movements on assets at fair value through other comprehensive income	**3**	-
Movements in relation to cash flow hedges:		
- net fair value (losses) gains	**176**	(368)
- recognised in income and expense	**(18)**	277
Tax on components of other comprehensive income that have been or may be reclassified	**(41)**	1
Other comprehensive profit (loss) for the period, net of tax	**(1,534)**	1,154
Total comprehensive income for the period	**625**	3,186

Group balance sheet

	31 March 2019	31 March 2018 (restated)[1]
	£m	£m
Non-current assets		
Intangible assets	14,385	14,447
Property, plant and equipment	17,835	17,000
Derivative financial instruments	1,481	1,312
Investments	54	53
Associates and joint ventures	47	38
Trade and other receivables	445	317
Contract assets[2]	249	-
Deferred tax assets	1,347	1,326
	35,843	34,493
Current assets		
Programme rights	310	272
Inventories	369	239
Trade and other receivables	3,222	4,014
Contract assets[2]	1,353	-
Assets held for sale	89	-
Current tax receivable	110	77
Derivative financial instruments	111	197
Investments	3,214	3,022
Cash and cash equivalents	1,666	528
	10,444	8,349
Current liabilities		
Loans and other borrowings	2,100	2,281
Derivative financial instruments	48	50
Trade and other payables	5,790	7,168
Contract liabilities[2]	1,225	-
Current tax liabilities	15	83
Provisions	424	603
	9,602	10,185
Total assets less current liabilities	**36,685**	32,657
Non-current liabilities		
Loans and other borrowings	14,776	11,994
Derivative financial instruments	892	787
Contract liabilities[2]	200	-
Retirement benefit obligations	7,182	6,847
Other payables	1,479	1,326
Deferred tax liabilities	1,407	1,340
Provisions	582	452
	26,518	22,746
Equity		
Share capital	499	499
Share premium	1,051	1,051
Own shares	(167)	(186)
Merger reserve	4,147	6,647
Other reserves	718	534
Retained earnings	3,919	1,366
Total equity	**10,167**	9,911
	36,685	32,657

[1] Restatement to reflect the update to the calculation of the IAS 19 accounting valuation of our retirement benefit obligations. See Note 2 to the condensed consolidated financial statements

[2] Contract assets and contract liabilities arise following the adoption of IFRS 15 on 1 April 2018. See Note 1 to the condensed consolidated financial statements

Group statement of changes in equity

For the full year to 31 March 2019 (IFRS 15 basis)

	Share Capital £m	Share Premium £m	Own Shares £m	Merger Reserve £m	Other Reserves £m	Retained Earnings £m	Total Equity £m
At 31 March 2018 – as published	**499**	**1,051**	**(186)**	**6,647**	**534**	**1,759**	**10,304**
Pension restatement[1]	-	-	-	-	-	(393)	(393)
At 31 March 2018 – restated	**499**	**1,051**	**(186)**	**6,647**	**534**	**1,366**	**9,911**
IFRS opening balance adjustment[2]	-	-	-	-	-	1,308	1,308
Tax on IFRS opening balance adjustment[2]	-	-	-	-	-	(248)	(248)
At 1 April 2018	**499**	**1,051**	**(186)**	**6,647**	**534**	**2,426**	**10,971**
Profit for the period	-	-	-	-	-	2,159	2,159
Other comprehensive income (loss) before tax	-	-	-	-	243	(2,102)	(1,859)
Tax on other comprehensive (loss) income	-	-	-	-	(41)	384	343
Transferred to the income statement	-	-	-	-	(18)	-	(18)
Comprehensive income	-	-	-	-	184	441	625
Transfer to realised profit	-	-	-	(2,500)	-	2,500	-
Dividends to shareholders	-	-	-	-	-	(1,503)	(1,503)
Share-based payments	-	-	-	-	-	67	67
Tax on share-based payments	-	-	-	-	-	-	-
Net buyback of own shares	-	-	19	-	-	(23)	(4)
Unclaimed dividends over 10 years	-	-	-	-	-	14	14
Other movements	-	-	-	-	-	(3)	(3)
At 31 March 2019	**499**	**1,051**	**(167)**	**4,147**	**718**	**3,919**	**10,167**

[1] See Note 2 to the condensed consolidated financial statements

[2] This reflects the opening balance sheet adjustment for both IFRS 15 and IFRS 9. See Notes 1 and 2 to the condensed consolidated financial statements

For the full year to 31 March 2018 (IAS 18 basis)

	Share Capital £m	Share Premium £m	Own Shares £m	Merger Reserve £m	Other Reserves £m	Retained Earnings £m	Total Equity £m
At 1 April 2017	499	1,051	(96)	6,647	884	(650)	8,335
Profit for the period	-	-	-	-	-	2,032	2,032
Other comprehensive 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 (loss) income	-	-	-	-	(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 – as published	**499**	**1,051**	**(186)**	**6,647**	**534**	**1,759**	**10,304**

Group cash flow statement

For the full year to 31 March 2019

	Full year to 31 March	
	2019 (IFRS 15) £m	2018 (IAS 18) £m
Cash flow from operating activities		
Profit before taxation	2,666	2,616
Share of post tax loss (profit) of associates and joint ventures	(1)	1
Net finance expense	756	764
Operating profit	3,421	3,381
Other non-cash charges	(112)	33
Profit on disposal of subsidiaries and interest in associates	5	(1)
Depreciation and amortisation	3,546	3,514
Increase in inventories	(138)	(14)
(Increase) decrease in programme rights	49	(34)
(Increase) decrease in trade and other receivables	(58)	(156)
(Increase) decrease in contract assets	15	–
(Decrease) increase in trade and other payables	57	(345)
(Decrease) increase in contract liabilities	(72)	–
Decrease in other liabilities[1]	(1,934)	(775)
(Decrease) increase in provisions	(92)	(203)
Cash generated from operations	**4,687**	5,400
Income taxes paid	(431)	(473)
Net cash inflow (outflow) from operating activities	**4,256**	4,927
Cash flow from investing activities		
Interest received	23	7
Dividends received from associates and joint ventures	–	–
Acquisition of subsidiaries	–	(16)
Proceeds on disposal of subsidiaries, associates and joint ventures	23	2
Acquisition of joint ventures	(9)	(9)
Proceeds on disposal of current financial assets	12,887	11,134
Purchases of current financial assets	(13,088)	(12,629)
Proceeds on disposal of non-current asset investments	1	19
Purchases of non-current asset investments	–	–
Proceeds on disposal of property, plant and equipment	41	21
Purchases of property, plant and equipment and software	(3,678)	(3,362)
Net cash inflow (outflow) from investing activities	**(3,800)**	(4,833)
Cash flow from financing activities		
Equity dividends paid	(1,504)	(1,523)
Interest paid	(531)	(555)
Repayment of borrowings[2]	(1,423)	(1,401)
Proceeds from bank loans and bonds	3,972	3,760
Cash flows from derivatives related to net debt	124	(188)
Repayment of acquisition facility	–	–
Repayment of EE revolving credit facility	–	–
Proceeds from issue of own shares	5	53
Repurchase of ordinary share capital	(9)	(221)
Net cash inflow (outflow) from financing activities	**634**	(75)
Net increase (decrease) in cash and cash equivalents	**1,090**	19
Opening cash and cash equivalents	499	511
Net (decrease) increase in cash and cash equivalents	1,090	19
Effect of exchange rate changes	5	(31)
Closing cash and cash equivalents[3]	**1,594**	499

[1] Includes pension deficit payments of £2,024m for the year to 31 March 2019 (2017/18: £872m)
[2] Repayment of borrowings includes the impact of hedging and repayment of lease liabilities
[3] Net of bank overdrafts of £72m at 31 March 2019 (31 March 2018: £29m)

Notes to the condensed consolidated financial statements

1 Basis of preparation and accounting policies

These condensed consolidated financial statements ('the financial statements') comprise the financial results of BT Group plc for the years to 31 March 2019 and 2018 together with the balance sheet at 31 March 2019 and 2018. The results for the year to 31 March 2019 have been extracted from the 31 March 2019 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 23 May 2019.

Except for the impact of IFRS 15 and IFRS 9 as described below, 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 2018 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 2019 or 2018 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 2019 or 31 March 2018. Statutory accounts for the year to 31 March 2018 were approved by the Board of Directors on 9 May 2018, published on 24 May 2018 and have been delivered to the Registrar of Companies.

New and amended accounting standards effective during the year

The following standards have been issued and were effective for BT Group from 1 April 2018:

IFRS 15 'Revenue from contracts with customers'

Background

IFRS 15 sets out the requirements for recognising revenue and costs from contracts with customers and includes extensive disclosure requirements. The standard requires us to apportion revenue earned from contracts to individual performance obligations, on a relative stand-alone selling price basis, based on a five-step model.

Transition

We have chosen to adopt IFRS 15 using the cumulative effect method. Under this transition method:

– the standard has been applied only to contracts in progress but not completed at the date of initial application;

– for contracts that were modified before 1 April 2018, we have reflected the aggregate effect of all of the modifications that occur before this date at 1 April 2018;

– prior period comparatives have not been restated for the effect of IFRS 15 and continue to be reported under IAS 18, instead our 1 April 2018 opening retained earnings have been adjusted for the full cumulative impact of adopting the standard; and

– we will provide in our Annual Report 2019 a reconciliation of our primary financial statements under IFRS 15 to those in accordance with IAS 18 for the year ended 31 March 2019.

Financial impact

In our Annual Report 2018 we estimated that the likely impact on transition at 1 April 2018 would produce a cumulative increase in retained earnings of between £1.1bn and £1.5bn before tax. The actual increase of £1.3bn before tax (£1.1bn after tax) has primarily been recorded as a contract asset and has led to an additional one-off cash tax payment equally split between 2018/19 and 2019/20. The cumulative increase in retained earnings is mainly due to the acceleration of handset revenues and, to a lesser extent, deferral of costs (notably third party contract acquisition costs primarily associated with post pay mobile contracts). The financial impact of each business area is as follows:

– Under our previous accounting policy, mobile handset revenue was recognised based on the amount the customer pays for the handset when it is delivered to the customer. Generally mobile handsets are either provided free or for a small upfront charge. Under IFRS 15, additional revenue is allocated to the mobile handset at the start of the contract. This is calculated with reference to its relative standalone value within the contract, regardless of the contract pricing. For each mobile handset contract the revenue recognition profile changed with greater day one recognition of revenue for the handset and a corresponding reduction in ongoing mobile service revenue over the contract period. The difference between the mobile handset revenue recognised and the amounts charged to the customer has been recognised as a contract asset. Over time, we expect the contract asset generated to remain at similar levels as old contracts expire and new ones are signed. However, we will see short-term volatility, for example around key handset launches. This primarily impacted Consumer, and to a lesser extent this also impacted mobile handset revenues in Enterprise in respect of the legacy EE business division. We saw a similar trend in respect of subsidised equipment although this had a less significant impact due to the lower relative standalone value.

– Previously, sales commissions and other third party acquisition costs resulting directly from securing contracts with customers were expensed when incurred. Under IFRS 15 sales commissions and other third party contract acquisition costs are recognised as an asset, and amortised over the period in which the corresponding benefit is received, resulting in earlier profit recognition. The impact is greatest in Consumer in respect of third-party acquisition costs.

– The above two impacts are partly offset by amended accounting for connections revenue. Previously, the group recognised connections revenue upon performance of the connection activity. Under IFRS 15 connections revenue is deferred and recognised on a straight-line basis over the associated line/circuit contractual period. This means that revenue and profits are recognised later. On transition this led to the recognition of a contract liability as revenue and profits are deferred to future periods. Wholesale and Ventures and Openreach deliver the majority of this service and therefore experienced the majority of the impact. Over time, this liability is expected to remain at similar levels as old contracts expire and new ones are signed.

– The IFRS 15 impact on other areas was not material. This included certain contract fulfilment costs which are recognised as an asset and amortised over the period in which benefit is received and certain expenses are recognised as a deduction from revenue.

Pro forma

We have prepared and published unaudited pro forma results for the years ended 31 March 2018 and 31 March 2017 under IFRS 15. These are available online at the following location:
https://www.btplc.com/Sharesandperformance/Financialreportingandnews/Quarterlyresults/index.htm

While BT believes the pro forma information contained in this document to be reliable, BT does not warrant the accuracy, completeness or validity of the information, figures or calculations and shall not be liable in any way for loss or damage arising out of the use of the information, or any errors or omissions in its content.

IFRS 9 'Financial Instruments'

IFRS 9 covers the classification, measurement, impairment and de- recognition of financial assets and liabilities together with a new hedge accounting model. The standard does not have a material impact on our results, with the key issues being the provision of expected lifetime losses on IFRS 15 contract assets, documentation of policies, hedging strategy and new hedge documentation.

There are no other new or amended standards or interpretations adopted during the year that have a significant impact on the group.

New and amended accounting standards that have been issued but are not yet effective

IFRS 16 'Leases'

IFRS 16 'Leases' is effective for the accounting period starting 1 April 2019 and will have a material impact on our financial statements. The standard requires lessees to recognise a right-of-use asset and lease liability for all leases meeting the lease definition set out by the standard unless certain exemptions are available. Results in the 2019/20 financial year will be reported under IFRS 16 and the Annual Report 2020 will be the first Annual Report to include the results on this basis.

On the basis of progress made in implementing the standard, we expect the following impact on adoption:
– Lease liabilities of between £5.6bn - £6.6bn will be recognised as a result of bringing operating lease commitments onto the balance sheet. Corresponding right-of-use assets will be recognised, adjusted for accrued lease payments and provisions currently recognised as liabilities. We do not anticipate a material impact on retained earnings due to the transition options selected.
– The increase in liabilities will have a corresponding impact on net debt and gearing ratios.
– Depreciation expense and interest expense will replace the current operating lease expense, resulting in increased EBITDA.
– Profit after tax will see a reduction in the periods immediately following transition to IFRS 16, driven by interest expense charged in respect of the new leases being 'frontloaded' when compared to the previously straight-line operating lease expense.
– Within the cash flow statement, lease payments will now be presented within cash flows from operating activities and cash flows from financing activities in respect of depreciation and interest expense respectively. The timing of cash flows will remain unchanged.
– "Last mile" arrangements currently accounted for as service contracts now meet the IFRS 16 lease definition. Connection fees received under these arrangements will now be deferred over the lease term, which is longer than the period over which they are currently deferred. This is not expected to have a material impact on the balance sheet or income statement.

We do not expect any other standards or interpretations that have been issued and are not yet effective to have a significant impact on the group.

2 Restatement of prior period financial statements

Revision of segment results

During the year we reduced the number of our customer-facing units with a corresponding impact on reportable segments. Our BT Consumer and EE customer-facing units were brought together on 1 April 2018, and our Business and Public Sector and Wholesale and Ventures customer-facing units were combined on 1 October 2018. The group now has four customer-facing lines of business, reduced from six: Consumer (formerly BT Consumer and EE); Enterprise (formerly Business and Public Sector and Wholesale and Ventures); Global Services; and Openreach. In addition, from 1 October 2018, Northern Ireland Networks (now 'Openreach Northern Ireland') which was previously reported within the Business and Public Sector unit, is reported within the Openreach unit and internal revenue generated by our Ventures business within Enterprise is now classified as segmental revenue rather than an internal recovery of cost. The comparative results for all four customer facing lines of business in the segment information note have been revised to be presented on a consistent basis. See note 3.

IAS 19 accounting valuation of retirement benefit obligations

As we reported in our half-year results, we announced on 27 July 2018, that we had been alerted to an error made by our independent external actuary in the actuary's calculation of our IAS 19 accounting valuation of retirement benefit obligations at 31 March 2018. Our independent external actuary is employed as an expert to calculate the IAS 19 accounting valuation on behalf of management. The error resulted from the incorrect application of changes to demographic assumptions. Management determined that the error was material with respect to our Group statement of comprehensive income and would require the Group to restate its previously issued consolidated financial statements for the year ended 31 March 2018.

The accounting error understated the net pension obligation, after tax, at 31 March 2018 by £393m (£476m gross of deferred tax) and overstated total equity in the balance sheet by £393m. The re-measurement gain of the net pension obligation recorded within the Group statement of comprehensive income for the year ended 31 March 2018 was overstated by £476m and tax expense on the pension re-measurement was overstated by £83m.

The error has no effect on the Group income statement or the Group cash flow statement or any amounts included in the financial statements for the years ending 31 March 2017 and 31 March 2016 or the six months to 30 September 2017. It also has no effect on the 2017 triennial funding valuation of the BT Pension Scheme, associated cash contributions or on the pension scheme members.

The impact of the retirement benefit obligation restatement and the IFRS 15 and IFRS 9 opening balance adjustments have been set out in the reconciliations below:

Group statement of other comprehensive income

Year to 31 March 2018	As published £m	Pensions adjustment £m	Restated £m
Profit for the period	2,032	-	2,032
Other comprehensive income (loss)			
Items that will not be reclassified to the income statement:			
Remeasurements of the net pension obligation	2,160	(476)	1,684
Tax on pension remeasurements	(346)	83	(263)
Items that have been or may be reclassified subsequently to the income statement:			
Exchange differences on translation of foreign operations	(188)	-	(188)
Fair value movements on available-for-sale assets	11	-	11
Fair value movements on cash flow hedges:			
- net fair value (losses) gains	(368)	-	(368)
- recognised in income and expense	277	-	277
Tax on components of other comprehensive income that have been or may be reclassified	1	-	1
Other comprehensive profit (loss) for the period, net of tax	**1,547**	**(393)**	**1,154**
Total comprehensive income (loss) for the period	**3,579**	**(393)**	**3,186**

Group balance sheet

	At 31 March 2018 (as published)	Pension adjustment	At 31 March 2018 (restated)	IFRS[1] adjustment	At 1 April 2018
	£m	£m	£m	£m	£m
Non-current assets					
Intangible assets	14,447	-	14,447	-	14,447
Property, plant and equipment	17,000	-	17,000	-	17,000
Trade and other receivables	317	-	317	114	431
Contract assets	-	-	-	198	198
Deferred tax assets	1,243	83	1,326	-	1,326
Other non-current assets	1,403	-	1,403	-	1,403
	34,410	**83**	**34,493**	**312**	**34,805**
Current assets					
Trade and other receivables	4,014	-	4,014	(337)	3,677
Contract assets	-	-	-	1,417	1,417
Cash and cash equivalents	528	-	528	-	528
Other current assets	3,807	-	3,807	-	3,807
	8,349	**-**	**8,349**	**1,080**	**9,429**
Current liabilities					
Loans and other borrowings	2,281	-	2,281	-	2,281
Trade and other payables	7,168	-	7,168	(1,409)	5,759
Contract liabilities	-	-	-	1,406	1,406
Current tax liabilities	83	-	83	248	331
Other current liabilities	653	-	653	-	653
	10,185	**-**	**10,185**	245	**10,430**
Total assets less current liabilities	**32,574**	**83**	**32,657**	**1,147**	**33,804**
Non-current liabilities					
Loans and other borrowings	11,994	-	11,994	-	11,994
Retirement benefit obligations	6,371	476	6,847	-	6,847
Contract liabilities	-	-	-	87	87
Other non-current liabilities	3,905	-	3,905	-	3,905
	22,270	**476**	**22,746**	87	**22,833**
Equity					
Share capital	499	-	499	-	499
All other reserves	8,046	-	8,046	-	8,046
Retained earnings	1,759	(393)	1,366	1,060	2,426
Total equity	**10,304**	**(393)**	**9,911**	**1,060**	**10,971**
	32,574	**83**	**32,657**	**1,147**	**33,804**

Group statement of changes in equity

	Share Capital	Share Premium	Own Shares	Merger Reserve	Other Reserves	Retained Earnings	Total Equity
	£m	£m	£m	£m	£m	£m	£m
At 31 March 2018 – as published	**499**	**1,051**	**(186)**	**6,647**	**534**	**1,759**	**10,304**
Pension restatement	-	-	-	-	-	(393)	(393)
At 31 March 2018 – restated	**499**	**1,051**	**(186)**	**6,647**	**534**	**1,366**	**9,911**
IFRS opening balance adjustment[1]	-	-	-	-	-	1,308	1,308
Tax on IFRS opening balance adjustment[1]	-	-	-	-	-	(248)	(248)
At 1 April 2018	**499**	**1,051**	**(186)**	**6,647**	**534**	**2,426**	**10,971**

[1] This reflects the opening balance sheet adjustment for both IFRS 15 and IFRS 9. See note 1 to the condensed consolidated financial statements

3 Operating results – by customer facing unit

Full year to 31 March 2019 (IFRS 15 basis)	External Revenue £m	Internal revenue £m	Group revenue £m	Adjusted EBITDA[1] £m	Operating profit £m
Consumer[4]	**10,588**	**107**	**10,695**	**2,534**	**1,510**
Enterprise[2]	**5,933**	**359**	**6,292**	**1,990**	**1,356**
Global Services	**4,735**	**-**	**4,735**	**505**	**135**
Openreach	**2,200**	**2,875**	**5,075**	**2,423**	**955**
Other	**3**	**-**	**3**	**(60)**	**(110)**
Intra-group items	**-**	**(3,341)**	**(3,341)**	**-**	**-**
Total adjusted[3]	**23,459**	**-**	**23,459**	**7,392**	**3,846**
Specific items (note 6)			**(31)**		**(425)**
Total			**23,428**		**3,421**
Full year to 31 March 2018 (IAS 18 basis)					
Consumer (restated)[4]	10,257	103	10,360	2,376	1,384
Enterprise (restated)[2]	6,206	441	6,647	2,077	1,442
Global Services	5,013	-	5,013	434	10
Openreach (restated)[2]	2,262	3,016	5,278	2,615	1,214
Other	8	-	8	3	(59)
Intra-group items	-	(3,560)	(3,560)	-	-
Total adjusted[3]	23,746	-	23,746	7,505	3,991
Specific items (note 6)			(23)		(610)
Total			23,723		3,381

[1] For the reconciliation of adjusted EBITDA see additional information on page 36

[2] On 1 October 2018, Business and Public Sector and Wholesale and Ventures were brought together to form Enterprise. We also transferred our Northern Ireland Networks business from Enterprise to Openreach and reclassified certain internal revenues generated by our Ventures businesses as segmental revenue rather than as an internal recovery of cost. 2018 results have been restated to reflect this. See note 1 for further information

[3] See Glossary on page 2

[4] Consumer results restated to reflect the bringing together of BT Consumer and EE with effect from 1 April 2018

4 Operating result – by type of revenue

The following table disaggregates revenue by the service lines we report under following adoption of IFRS 15. The prior year comparatives have been presented consistent with the service lines disclosed in last year's Annual Report under IAS 18.

Full year to 31 March 2019 (IFRS 15)	
	£m
ICT and managed networks	**5,128**
Fixed access subscription revenue	**9,242**
Mobile subscription revenue	**5,273**
Equipment and other services	**3,816**
Total adjusted[1]	**23,459**
Specific items (note 6)	**(31)**
Total	**23,428**

Full year to 31 March 2018 (IAS 18)	
	£m
ICT and managed networks	5,530
Broadband and TV	4,655
Mobile	6,451
Calls, lines and connections	5,126
Transit	265
Other products and services	1,719
Total adjusted[1]	23,746
Specific items (note 6)	(23)
Total	23,723

[1] See Glossary on page 2

5 Operating costs

	Full year to 31 March	
	2019	2018
	£m	£m
Direct labour costs	**5,365**	5,348
Indirect labour costs	**939**	927
Leaver costs	**17**	50
Total labour costs	**6,321**	6,325
Capitalised labour	**(1,506)**	(1,410)
Net labour costs	**4,815**	4,915
Product costs and sales commissions[1]	**4,464**	4,429
Payments to telecommunications operators	**2,059**	2,306
Property and energy costs	**1,325**	1,285
Network operating and IT costs	**1,026**	963
Programme rights charges	**841**	763
Other operating costs[1]	**1,537**	1,580
Operating costs before depreciation, amortisation and specific items	**16,067**	16,241
Depreciation and amortisation	**3,546**	3,514
Total operating costs before specific items	**19,613**	19,755
Specific items (Note 6)	**394**	587
Total operating costs	**20,007**	20,342

[1] Product costs and sales commissions included within 'other operating costs' in prior years are now presented separately. The other operating costs comparative for the year to 31 March 2018 has been re-presented for consistency

6 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'). Specific items are used to derive the adjusted results as presented in the accompanying consolidated income statement. Adjusted results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reporting trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, retrospective regulatory matters, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items.

	Full year to 31 March	
	2019 £m	2018 £m
Specific revenue		
Retrospective regulatory matters	**31**	23
Specific revenue	**31**	23
Specific operating costs		
Restructuring charges	**386**	241
EE integration costs	**-**	46
Pension equalisation costs	**26**	-
Retrospective regulatory matters	**(4)**	26
Italian business investigation	**(55)**	22
EE acquisition warranty claims	**-**	225
Property rationalisation costs	**36**	28
Profit (loss) on disposal of business	**5**	(1)
Specific operating costs	**394**	587
Specific operating loss	**425**	610
Net interest expense on pensions	**139**	218
Net specific items charge before tax	**564**	828
Tax credit on specific items before tax	**(112)**	(87)
Net specific items charge after tax	**452**	741

Restructuring charges

During the year we incurred charges of £386m (2017/18: £241m), primarily relating to leaver costs. These costs reflect projects within our group-wide cost transformation programme and include costs related to the remaining integration of EE and £23m costs to close the BT Pension Scheme and provide transition payments to affected employees.

EE integration costs

EE integration related costs incurred in 2017/18 of £46m relate to EE related restructuring and leaver costs. In the current year remaining EE integration activities have been combined into the wider restructuring programme.

Pension equalisation costs

During the year we recognised a charge of £26m (2017/18: £nil) in relation to the high court requirement to equalise pension benefits between men and women due to guaranteed minimum pension (GMP).

Retrospective regulatory matters

We have recognised a net charge of £27m (2017/18: £49m) in relation to regulatory matters in the year. This reflects the completion of the majority of compensation payments to other communications providers in relation to Ofcom's March 2017 findings of its investigation into our historical practices on Deemed Consent by Openreach, and new matters arising. Of this, £31m is recognised in revenue offset by £4m in operating costs.

Italian business investigation

During the year we released £55m provisions following the settlement of various matters in our Italian business.

EE acquisition warranty claims

In the prior year we reached settlements with Deutsche Telekom and Orange in respect of any warranty claims under the 2015 EE acquisition agreement, arising from the issues regarding our operations in Italy. This represented a full and final settlement.

Property rationalisation costs

We have recognised a charge of £36m (2017/18: £28m) relating to the rationalisation of the group's property portfolio.

Interest expense on retirement benefit obligation

During the year we incurred £139m (2017/18: £218m) of interest costs in relation to our defined benefit pension obligations.

Tax on specific items

A tax credit of £112m (2017/18: £87m) was recognised in relation to specific items.

7 Pensions

	31 March 2019	31 March 2018 (restated)
	£bn	£bn
IAS 19 liabilities – BTPS	(58.9)	(56.2)
Assets – BTPS	52.2	49.9
Other schemes	(0.5)	(0.5)
Total IAS 19 deficit, gross of tax	**(7.2)**	(6.8)
Total IAS 19 deficit, net of tax	**(6.0)**	(5.7)
Discount rate (nominal)	2.35%	2.65%
Discount rate (real)	(0.87%)	(0.44)%
RPI inflation	3.25%	3.10%
CPI inflation	1.1% below RPI until 31 March 2023 and 1.0% below RPI thereafter	1.0% below RPI until 31 March 2023 and 1.1% below RPI thereafter

8 Contingent liabilities

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

US securities class action complaints: The plaintiffs filed a third amended complaint in December 2018. We filed a motion to dismiss that complaint, which plaintiffs opposed. We filed our reply to the plaintiff's opposition to the motion to dismiss on 11 January 2019. We are awaiting a decision from the US District court.

Italian Authorities: On 11 February 2019 the Milan Public Prosecutor served BT Italia S.P.A. with a notice regarding conclusion of their preliminary investigation. The notice (which named BT Italia, as well as various individuals) records the prosecutor's view that as at the conclusion of the preliminary investigation there is a basis for proceeding with its case against BT Italia for certain potential offences under articles 5 and 25 of Legislative Decree 231/2001. BT Italia disputes this and maintains in a defence brief filed on 19 April 2019 that it should not be prosecuted. BT Italia is not presently the subject of any formal charge (nor are any of the individuals named in the prosecutor's notice).

Phones 4U

In December 2016, the administrators of Phones 4U 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 Phones 4U 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 May 2018 we reached a confidential agreement with the administrators of Phones 4U 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 of Phones 4U Limited have made allegations that EE and other mobile network operators colluded to procure Phones 4U's insolvency. During the year proceedings were issued for an unquantified amount by the administrators and in April 2019 we submitted our defence to this claim. We continue to dispute these allegations vigorously.

Brazilian tax claims

The Brazilian state tax authorities have made tax demands on the exchange of goods and services (ICMS) and regulatory assessments (FUST/FUNTTEL) against certain Brazilian subsidiaries. These are indirect taxes imposed on the provision of telecommunications services in Brazil. The state tax and regulatory authorities are seeking to impose ICMS and FUST/FUNTTEL on revenue 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 and FUST/FUNTTEL are imposed and, in the case of ICMS, have challenged the rate which the tax authorities are seeking to apply. We currently have 33 ICMS cases with a current potential value of £204m. This is the assessed amount for all cases spanning the period from 1998 to 2012 (plus one outlier case for the period 2013 to 2016 in the state of Minas Gerais and one case for the period 2014 to 2015 in the state of Amazonas). There are currently 56 FUST/FUNTTEL cases with a known overall liability of £19m; with a further £4m estimated. The judicial process is likely to take many years. There are eight ICMS cases worth approximately £55m which are at an advanced stage. These are currently pending before the Sao Paulo Court of Appeal. We are waiting for the Reporting Judge to schedule the trial hearing and expect to have a date soon, following the February judicial recess.

Regulatory matters

Northern Ireland Public Sector Shared Network contract

On 4 April 2019 Ofcom opened an investigation into whether the award of the Public Sector Shared Network contract for Northern Ireland to BT complied with relevant significant market power conditions. We are cooperating with Ofcom's investigation.

9 Principal risks and uncertainties (extracted from the BT Group plc Annual Report 2019)

The principal risks and uncertainties that affect us could have an impact on our business, brand, customers, assets, revenue, profits, liquidity or capital resources.

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

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

We recognise the uncertainty that political and geopolitical 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 has developed contingency plans covering a range of scenarios, including the possibility that the UK leaves the EU without a deal. The programme continues to follow developments closely and reports to a steering group chaired by our chief financial officer.

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

Trend versus prior year indicates our perception of pre-mitigation risk: ↑ *Increasing/worsening* ↓ *Lessening/improving* → *At a similar level*

Strategic risks

Risk	**Potential impact**	**Developments in 2018/19**	**Examples of how we mitigate**
Competition and technology changes • Our strategy and business model could be disrupted by technology change and/or intensifying competition from established players and new entrants into our markets. Trend: →	• Loss of market share, lower revenues and profit. • Products becoming obsolete faster. • A need for us to invest more.	• The UK telecom market struggled to grow. • Competition increased in the UK as many of our competitiors tried to take more market share. • Some alternative network providers announced fibre network investment plans in the UK. • UK sports rights competition increased, with Amazon winning a three year broadcast package for the Premier League, starting in 2019. • Competitors are developing their future 5G propositions.	• We are: ➢ delivering a differentiated customer experience to retain existing customers and attract new customers; ➢ investing in building the best converged network to provide our customers with products and services that stand out in the marketplace; and ➢ simplifying our business and processes to reduce our cost base, which is an essential enabler to deliver a differentiated customer experience and build the best converged network. • We're keeping a close eye on and responding to technology developments and competitor activity that could have an impact on us achieving our goals.
Communications industry regulation • Risk of unfavourable changes to the way we operate and compete where, for example, Ofcom raises competition concerns around market power. • Also the risk of unfavourable regulatory changes outside the UK to licensing and terms on which we access incumbent operators' networks. Trend: →	• Reduced prices on products. • Increased costs of doing business due to the service standards we are required to meet. • Limitations in the scope and competitiveness of the services we can provide.	• Ofcom published Digital Communications Review Implementation Reports in June and November 2018 reviewing BT's and Openreach's adoption of the Commitments and Governance Protocol. • The Department for Digital, Culture, Media and Sport published its Future Telecoms Infrastructure Review. • Ofcom continued its cycle of market reviews, including consultations on the business connectivity and physical infrastructure markets, and on its move to more holistic regulation of access across business and residential markets. • Consumer issues such as charges once a customer's minimum contract term expires were part of a super-complaint by Citizens Advice to the Competition and Markets Authority (across telecommunications and financial services sectors) and has been referred back to Ofcom.	• Our regulatory and policy specialists, legal experts, compliance and operational teams guard against potential risks and look for timely opportunities to support the shaping of regulation. This is underpinned by our regulatory strategy. • We push for clear, predictable and proportionate regulation, submitting evidence and analysis into market reviews, charge controls, disputes and investigations. • Regular engagement with regulators, government, consumer organisations and other key stakeholders helps us build trust and understand their outlook. • We can ask for judicial reviews of regulatory decisions and appeal to the Competition Appeal Tribunal, dispute things or complain against outcomes that we feel aren't in the best interests of the market or our customers.

Political risk • Our future strategy and investor confidence could be undermined as a result of an uncertain or adversarial political environment. • Our operations and revenues could be disrupted as a result of geopolitical risk, in particular outside the UK. Trend: ↑	• Direct consequences include impact of movement in foreign exchange rates, lower consumer and business confidence, cost and availability of capital, interest rates and changes in tax regimes. • Political risk can also impact upon some of our other principal risks, in particular regulation. • Outside the UK political risk impacts us through changes in regulation and competition. It could also result in social unrest or a breakdown in the rule of law which could lead to a threat to our people and assets.	• There were continued negotiations between the EU and UK to agree Brexit terms – against a backdrop of domestic political instability. • There was high political interest and policy focus around communications – particularly fibre broadband and 5G. The Government's Future Telecoms Infrastructure Review concluded. • There was more political focus on issues like consumer pricing and contracts, and security and competition in the communications supply chain.	• We have strong relationships with the UK Government, key departments, MPs, peers, the media and business and consumer bodies. We also engage often and closely with governments and politicians in the EU and our key global markets. • We inform public debate around the communications market with campaigns explaining our role within it. • In the build up to the UK's scheduled exit from the EU we've continued our contingency planning to make sure customers keep getting our services. This includes: making sure we have enough stock to mitigate any short-term disruption; making crisis management arrangements in the immediate aftermath of a 'hard' Brexit; reviewing how we'd keep serving EU customers; assessing what systems we need to change; and making sure our key suppliers are similarly prepared for any eventuality. • Outside the UK our public affairs and regulatory teams support governments and regulators to establish and maintain open and fair regulation of markets. • Our security and business continuity teams focus on protecting our people and assets against the consequences of geopolitical risks.

Financial risks

Risk	Potential impact	Developments in 2018/19	Examples of how we mitigate
Pensions Risk • Our defined benefit (DB) pension schemes, in particular the BT Pension Scheme (BTPS), could become more of a financial burden as a result of future low investment returns, high inflation, longer life expectancy and/or regulatory changes. Trend: →	• The next BTPS valuation due at 30 June 2020. A rise in the deficit might affect the size of payments we have to make into the scheme. • A rise in the deficit could also negatively affect our share price or credit rating, making it harder and more expensive to access funding.	• The actuarial valuation of the BTPS was agreed in May 2018. This led to a £2bn contribution in June 2018, funded by proceeds from issuing long-term bonds to the BTPS. • We reviewed pension arrangements for our UK people, closing Sections B and C of the BTPS to future benefit accrual on 30 June 2018 (representing more than 99% of active members at the time). This has largely removed the build-up of additional future liabilities in the BTPS.	• We and the BTPS Trustee regularly review the scheme's funding position and investment performance. We also consider associated risks and possible mitigations. • Our agreement with the BTPS Trustee following the last funding valuation helped reduce investment risk and allows for a gradual move to a low-risk investment approach over time. Our strategy also aims to mitigate the impact of liability increases (for example by investing in assets that will go up in value if future inflation expectations rise).
Financial risk • Like many other major international businesses, we're exposed to financial risks such as market risk (including interest rate and foreign exchange	• Interest and foreign exchange rate movements could negatively affect our profitability, cash flow and balance sheets.	• Earlier in the year S&P and Fitch downgraded our credit rating due to concerns over the effect that competing pressures, including those related to our pension and our	• We have a centralised treasury function whose job is to manage liquidity and funding requirements as well as our exposure to financial and market risks. • Our governance framework is at the heart of how we mitigate tax risk. This

risks), credit risk, liquidity risk and tax risks. Trend: →	• If credit risks materialise they could negatively impact our liquidity and profitability. • If we don't stick to tax rules we could face financial penalties and reputational damage.	network investments, may have on our cashflows. The three main agencies now rate us Baa2 / BBB with stable outlook. • As the external tax environment changes, we have to make more judgements to forecast the future tax consequences of business decisions.	is set and agreed by the Board. We always aim to pay tax in line with the laws of the countries where we do business. We want open, constructive relationships with tax authorities worldwide, getting reputable independent advice where we need it.

Compliance risks

Risk	Potential impact	Developments in 2018/19	Examples of how we mitigate
Significant financial control failure • Financial controls may not prevent or detect fraud, financial misstatement or other financial loss. Trend: →	• Failures in our financial control framework could result in financial misstatement, financial loss including a failure to prevent fraud, or key decisions being taken based on incorrect information.	• KPMG have become our new external auditors. • We have brought together, under new management, our risk management, compliance, internal audit and some second line assurance functions. • We commenced a significant Sarbanes-Oxley control enhancement programme which identified two particular areas requiring remediation: IT general controls and risk assessment, in particular, documentation of information used in controls. Although improvements have been made, remediation and testing of all IT general controls and risk assessment remediation plans was not complete at 31 March 2019 and will be a significant focus for 2019/20.	• We train our people (including those in high risk roles) to build awareness and understanding of controls – including our three lines of defence, fraud awareness and balance sheet reconciliation best practice courses. • We have implemented of a financial controls framework with appropriate policies, processes, checks and balances – including quarterly certifications over key controls by senior leaders. • We are progressing a programme to strengthen our financial control framework, supported by a new Group Financial Controls and Assurance team.
Privacy, data protection and data governance • We might fail to ensure that our customers' and employees' data are secure and protected in compliance with data privacy laws, against internal and external threats. Trend: ↑	• A breach of data protection regulation could result in enforcement action, significant fines, class-action, prison sentences and the regulator telling us to stop processing the data. • This could also result in potential reputational damage, stopped operations and financial loss from fines and customers leaving.	• EU General Data Protection Regulation (EU GDPR) came into force on 25th May 2018. Our preparations included setting out in our privacy policies what personal data we collect, what we do with it and why we process it; reviewing our contractual data obligations with suppliers; and increasing our resources to deal with data subject access requests. • A number of major corporations have fallen victim to significant data breaches this year.	• We perform compliance reviews of our activities involving personal data across the business. Our focus is on protecting systems, enhancing our operational processes and training our people to protect the personal data they handle. • We provide our people with tools to make risk-based decisions in their day-to-day activities (like using Privacy Impact Assessments when they develop new products or services). • We conduct due diligence activities on third parties' data handling and security arrangements. • We have Binding Corporate Rules agreed with the regulator to guide and

			support our business operations.
Health, safety and wellbeing • We might fail to ensure the health, safety and wellbeing of our people and members of the public, in breach of health and safety laws and regulations. Trend: →	• Health and safety failures could mean injury to our people or members of the public, financial penalties, hindered or stopped operations and reputational damage.	• Changes in technology and working processes helped reduce physical risks to our people. • Changes in our workforce mean we have more new recruits and they need more safeguards while they gain experience. • We're managing the psychological impact of the pace and scale of our transformation on our people. • We've appointed a new director of health, safety and wellbeing.	• We implement a company-wide and Board-endorsed health, safety and wellbeing strategy. • All our people do training in basic health and safety, overseen by their managers. • We monitor compliance through annual licensing, refresher training, competency assessments and accreditation for higher-risk groups. • We have a new IT system to help us better capture and share information on health and safety incidents. • We run wellbeing campaigns for our people.
Ethical Culture • Our controls and procedures could fail to detect unethical or inappropriate behaviour by our people or associates. Trend: →	• Unethical or inappropriate behaviour could result in fraud or a breach of regulation or legislation. • That in turn could expose BT to significant penalties, criminal prosecution and damage to our brand and reputation.	• A steady flow of companies being prosecuted under anti-corruption and bribery laws (UK Bribery Act and the FCPA). • An increase in legislation to address and report on human rights abuses by companies. • An increase in Speak Up (BT's confidential whistleblowing service) reports and conflict of interest registrations.	• First and second line assurance teams perform risk-focused thematic reviews in addition to controls monitoring. • We have policies covering financial and non-financial controls including trade sanctions, conflicts of interest, gifts and hospitality, charitable donations and sponsorship. • We carry out due diligence on third parties like suppliers, agents, resellers and distributors. • We include anti-corruption and bribery clauses in our procurement contracts.

Operational risks

Risk	Potential impact	Developments in 2018/19	Examples of how we mitigate
Customer experience • Our customer experience may not be brand enhancing nor drive sustainable profitable revenue growth. Trend: →	• If we don't deliver a great customer experience it could damage our brand, cause customers to leave and so reduce our revenue, or even lead to financial penalties. • It could also impact our people's pride in working for BT.	• We continued to improve our customer experience, achieving our best ever customer perception results for BT Consumer, EE, Enterprise and Global Services. • Our consumer brands came together under a new Consumer unit. • We launched our new Be There brand positioning.	• We track a range of customer experience metrics very closely and have programmes in place to drive improvement. For example, our BT transformation plan includes a radical business process simplification workstream. • We've launched new and innovative products to further enhance our customers' experience, for example, BT Plus.
Major contracts • There is a substantial performance risk to our complex and high-value national and multinational customer contracts. Trend: →	• If we don't meet contractual commitments, or if customers' needs change, then our expected future revenue, profitability and cash generation may reduce.	• We made improvements this year, including: i. learning more about why the performance of some contracts deteriorates and how to stop it happening in future	• We have governance, risk management and reporting processes in place at both corporate function and customer-facing unit levels. • We have an independent review programme to provide checks and balances on individual contracts. • We check how we're managing contracts against a best practice

	• Contracts may even become loss-making through a drop in revenue, changes to customers' businesses, business failure or contract termination. • We are delivering some particularly high-profile infrastructure contracts, notably the Emergency Services Network (ESN) and the Broadband Delivery UK programme (BDUK). If we failed to deliver these, or had an operational failure, it could lead to major reputational damage.	ii. improving the process for management reviewing contracts iii. improving long-term forecasting iv. improving our contract management systems and governance processes v. redefining and enhancing our controls and assurance. • On top of deploying the second and third phases of our BDUK contracts, we continued to win new BDUK work to further extend coverage of superfast broadband in rural areas. • We agreed a new ESN contract framework with the Government.	framework, based on our knowledge of running and managing major programmes. • We also train our contract managers to better identify and manage risk.
Service interruption • There is a risk we are unable to prevent and respond to incidents caused by natural perils, network and system faults, and malicious acts that threaten our network. • We may also fail to prevent interruption to our services as a result of supply chain failure, software changes, equipment faults, fire, flood, infrastructure outages and sabotage. Trend: ↑	• A major interruption event could result in lost productivity, rework and recovery costs, loss of revenue, increased insurance costs, legal or contractual penalties, or even harm to individuals. • It could also result in customers leaving BT.	• Extreme weather always challenges our IT and network estate. This year we had to keep our network operating through the joint hottest UK summer on record, lightning storms and heavy rain. • We've particularly focused on technology lifecycle management to recognise and manage the risks associated with our systems estate over time.	• We monitor our IT and network performance very closely, and have controls in place to limit interruption to service. • Our mobile, geographically dispersed, emergency response facilities help us manage incidents if they do occur. • We are continuing our programme of providing permanent flood protection for our critical assets most at risk. • We test our resilience through a number of activities, including a continual cycle of war gaming. • We review the lessons learned from major incidents in order to try and prevent such things from recurring.
Cyber and information security • Security risks could arise from people inside BT or from external sources like hacktivists, criminals, terrorists or nation states attacking our infrastructure and assets, for example through use of hacking tools, phishing scams and disruptive malware. Trend: ↑	• A cyber attack could result in disruption to our business or data being compromised, leading to financial loss, long-term reputational damage, loss of market share, regulatory sanctions, fines and contract penalties or termination. • It could also result in missed opportunities to grow revenue and launch new services	• Major corporates continue to fall victim to cyber-attack, with a number of high-profile incidents occurring in 2018/19. • EU GDPR came into force on 25 May 2018.	• We monitor and log our network and systems, and keep raising our people's security awareness through training and mock phishing attacks. • We have compartmentalised our IT estate as we provision new cloud-based systems to limit the potential impact of a cyber attack. • 'Red Team' exercises run by our ethical hackers help us to keep improving security across BT, especially around upgrading our access controls.

	ahead of our competitors.		
Supply chain • There is a risk of disruption to the integrity and continuity of our supply chain. • Global markets expose us to global supply chain risks. These include different labour standards and environmental and climate change practices, increasing regulation and geopolitical events. Trend: ↑	• The impact of suppliers failing can vary. If substituting a failing supplier meant we had to disrupt our business, it could cost us a lot of time and money. • If we couldn't find a different supplier, it might compromise the commitments we make to our customers, leading to us breaking our contract, lost revenue or incurring financial penalties. • If our supply chain doesn't meet legal, regulatory or ethical standards it could damage our reputation and possibly lead to legal action and fines.	• With EU GDPR coming into force, we worked closely with our suppliers through the year to help protect our people and customers and incorporate privacy-by-design by default into the products and services they supply us. • We planned extensively for the potential impacts of Brexit on our supply chain. • We've been closely monitoring global political developments with respect to Huawei. • We started work to establish a new centralised third party risk and control capability. • After the failure of Carillion (one of our large suppliers) last year, we strengthened our risk monitoring processes, including the ways we identify and respond to early warning signs of potential supplier failure.	• In December 2018 we announced that, in line with our long-standing network architecture principles around the use of Huawei, we will replace the current Huawei 4G core (inherited through the EE acquisition). This will be implemented as we move to a future new and combined 4G/5G core. • For our most important suppliers, we keep a close watch on our relationships, their performance and ability to meet their obligations. We tell the business when there's a risk of a supplier failing, and our senior leaders review our readiness for such events. • We undertake due diligence when we introduce new suppliers and in our continuing business with existing ones. That includes checks on company finances, business systems, accreditations, media reputation and ethical practices. The standards we apply are available on selling2bt.com. • We are also refining the way our three lines of defence come together to manage and assure supplier risks. • Our dealings with suppliers follow our trading, compliance and ethical policies.
Colleague engagement • There is a risk that our people are not sufficiently engaged to enable us to achieve our strategic priorities. Trend: →	• Negative reactions to change might mean us losing talented people, leading to us losing important skills and needing to hire more external people, adding cost to the business. • Poor engagement also raises the risk of general industrial unrest and action.	• We've worked constructively with our unions this year to agree a number of transformation initiatives, including changes to our defined benefit pension scheme and the TUPE transfer of our people into Openreach Limited. • As we create a simpler business, we're also working closely with them to roll out a new people framework defining job families and career levels for our people.	• We've undertaken extensive consultations with unions, works councils and employee representatives to make sure we maintain a healthy and positive relationship with our people. • We're continuing to streamline our management structure – moving responsibilities closer to front line teams and speeding up decision making to help deliver a better customer experience.
Change management • Our BT transformation plan could fail to deliver its required benefits. • There is also a risk that such deep and fast change can be distracting and	• If we don't manage our change programme carefully, we may not deliver its intended benefits, it could negatively	• We made good progress delivering our BT transformation plan, including establishing a new people framework for our management grades.	• We apply a formal structure and governance to our key change programmes – for example our BT transformation plan has a full-time programme office and our *Executive Committee* reviews progress weekly. Change programmes are also

cause uncertainty amongst our people. Trend: ↑	impact customer experience or affect our employee engagement. • We could potentially overspend on the change programme itself.	• Work continued delivering a new Digital Global Services with an agreed new organisational structure. • We completed the integration of our Business and Public Sector and Wholesale and Ventures units into a single new Enterprise unit.	supported by our business transformation team. • Close communication with our people and unions, supported by monitoring our engagement levels, helps us manage the uncertainty that the transformation may cause and target interventions where needed.

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. The directors believe that presentation of the group's results in this way is relevant to an 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. 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. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. 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, adjusted earnings before interest, tax, depreciation and amortisation, net debt and free cash flow from the nearest measures prepared in accordance with IFRS are provided in this Additional Information.

2) Trends in underlying revenue are non-GAAP measures which seek to reflect the underlying performance of the group that will contribute to long-term sustainable growth. As such this excludes the impact of acquisitions or disposals, foreign exchange movements and specific items.

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. We consider EBITDA and adjusted EBITDA to be useful measures of our operating performance because they approximate the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA and adjusted EBITDA are not direct measures of our liquidity, which is shown by our cash flow statement, and need to be considered in the context of our financial commitments. A reconciliation of reported profit for the period to EBITDA and adjusted EBITDA is provided below.

	Full year to 31 March	
	2019 (IFRS 15) £m	2018 (IAS 18) £m
Reported profit for the period	**2,159**	2,032
Tax	**507**	584
Reported profit before tax	**2,666**	2,616
Net interest related finance expense	**606**	530
Depreciation and amortisation	**3,546**	3,514
EBITDA	**6,818**	6,660
EBITDA specific items	**425**	610
Net other finance expense	**150**	234
Share of post tax losses (profits) of associates and joint ventures	**(1)**	1
Adjusted[1] EBITDA	**7,392**	7,505

[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 liquidity. However, we also believe they are important indicators of our overall operational performance as they reflect the cash we generate from operations after capital expenditure and financing costs, both of which are significant ongoing cash outflows associated with investing in our infrastructure and financing our operations. In addition, normalised free cash flow excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends, share buybacks, acquisitions and disposals, and repayment and raising of debt. Normalised free cash flow is not a measure of the funds that are available for distribution to shareholders.

A reconciliation from cash flow from operating activities, the most directly comparable IFRS measure, to free cash flow and normalised free cash flow, is set out below.

	Full year to 31 March	
	2019	2018
	£m	£m
Cash inflow from operating activities	**4,687**	5,400
Tax paid	**(431)**	(473)
Net cash inflows from operating activities	**4,256**	4,927
Net purchase of property, plant and equipment and software	**(3,637)**	(3,341)
Free cash flow[1]	**619**	1,586
Interest received	**23**	7
Interest paid	**(531)**	(555)
Add back pension deficit payments	**2,024**	872
Add back net cash flow from specific items	**598**	828
Add back net sale of non-current asset investments	**1**	19
Add back payments in respect of acquisition of spectrum licence	**-**	325
Remove refund on acquisition of spectrum licence	**(21)**	-
Remove cash tax benefit of pension deficit payments	**(273)**	(109)
Normalised free cash flow[1]	**2,440**	2,973

[1] See Glossary on page 2

Net Debt

Net debt is not a measure defined under IFRS but is a key indicator used by management to assess both the group's cash position and its indebtedness. 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 2019	**31 March 2018**
	£m	£m
Loans and other borrowings	**16,876**	14,275
Cash and cash equivalents	**(1,666)**	(528)
Current asset investments	**(3,214)**	(3,022)
	11,996	10,725
Adjustments:		
To re-translate currency denominated balances at swapped rates when hedged[1]	**(701)**	(874)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method[2]	**(260)**	(224)
Net debt[3]	**11,035**	9,627

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

Reconciliation of year on year trends in underlying revenue

Year on year trends in underlying revenue 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, is set out below.

	Full year to 31 March 2019
	%
Decrease in reported revenue (IAS 18)	**(1.2)**
Specific items (IAS 18)	**-**
IFRS 15 adjustment	**(0.1)**
Decrease in adjusted[1] revenue (IFRS 15 pro forma)	**(1.3)**
Acquisitions and disposals	**0.2**
Foreign exchange movements	**0.2**
Decrease in underlying[1] revenue	**(0.9)**

[1] See Glossary on page 2

Reconciliation of year on year trends in adjusted earnings before interest, tax, depreciation and amortisation

Adjusted 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. Adjusted EBITDA is defined as EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense.

A reconciliation of the trends in EBITDA to adjusted EBITDA is provided below.

	Full year to 31 March 2019
	%
Increase (decrease) in EBITDA (IAS 18)	**1.0%**
Specific items (IAS 18)	(2.5%)
IFRS 15 adjustment	(0.9%)
Decrease in adjusted[1] EBITDA (IFRS 15)	**(2.4%)**

[1] See Glossary on page 2

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 2019/20 including revenue, adjusted EBITDA and free cash flow; our roll out of FTTP; and launch of 5G.

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: market disruptions caused by technological change and/or intensifying competition from established players or new market entrants; unfavourable changes to our business where Ofcom raises competition concerns around market power; unfavourable regulatory changes; disruption to our business caused by an uncertain or adversarial political environment; geopolitical risks; adverse developments in respect of our defined benefit pension schemes; adverse changes in economic conditions in the markets served by BT, including interest rate risk, foreign exchange risk, credit risk, liquidity risk and tax risk; financial controls that may not prevent or detect fraud, financial misstatement or other financial loss; security breaches relating to our customers' and employees' data or breaches of data privacy laws; failures in the protection of the health, safety and wellbeing of our people or members of the public or breaches of health and safety law and regulations; controls and procedures that could fail to detect unethical or inappropriate behaviour by our people or associates; customer experiences that are not brand enhancing nor drive sustainable profitable revenue growth; failure to deliver, and other operational failures, with regard to our complex and high-value national and multinational customer contracts; changes to our customers' needs or businesses that adversely affect our ability meet contractual commitments or realise expected revenues, profitability or cash flow; termination of customer contracts; natural perils, network and system faults or malicious acts that could cause disruptions or otherwise damage our network; supply chain failure, software changes, equipment faults, fire, flood, infrastructure outages or sabotage that could interrupt our services; attacks on our infrastructure and assets by people inside BT or by external sources like hacktivists, criminals, terrorists or nation states; disruptions to the integrity and continuity of our supply chain (including any impact of global political developments with respect to Huawei); insufficient engagement from our people; and risks relating to our BT transformation plan.

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 four customer-facing units: Consumer, Enterprise, Global Services 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 2018/19 results call 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 2019 on 23 May 2019. The Annual General Meeting of BT Group plc will be held on 10 July 2019 at Old Billingsgate, London.

We are scheduled to announce our first quarter results for 2019/20 on 2 August 2019.