8 May 2014

BT GROUP PLC

RESULTS FOR THE FOURTH QUARTER AND YEAR TO 31 MARCH 2014

BT Group plc (BT.L) today announced its results for the fourth quarter and year to 31 March 2014.

Fourth quarter and full year results:

		Fourth quarter to 31 March 2014		Year to 31 March 2014	
		£m	Change[1]	**£m**	Change[1]
Revenue[2]		**4,748**	(1)%	**18,287**	0%
Underlying revenue[3] excluding transit			1.2%		0.5%
EBITDA[2]		**1,705**	2%	**6,116**	0%
Profit before tax	- adjusted[2]	**901**	9%	**2,827**	6%
	- reported	**747**	17%	**2,312**	0%
Earnings per share	- adjusted[2]	**9.0p**	10%	**28.2p**	7%
	- reported	**7.2p**	1%	**25.7p**	4%
Normalised free cash flow[4]		**1,346**	£45m	**2,450**	£150m
Net debt				**7,028**	£(769)m
Full year proposed dividend				**10.9p**	15%

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

"We have made strong progress this year. Underlying revenue, adjusted profit before tax and normalised free cash flow have all grown and beaten market expectations.

"Our investment in fibre is delivering with 1.3 million more premises taking fibre this year, almost doubling the number of homes and businesses now connected. Our rollout is ahead of schedule with our fibre network passing more than 19 million premises, around two thirds of the UK. But we are not stopping there. All of our BDUK projects are underway and will help take the coverage of all fibre networks to at least 90% of the UK, bringing significant benefits to communities across the nation.

"BT Sport has proved very popular and we are delighted the service is now in around five million homes. For BT Consumer it underpinned a record 9% growth in revenue in the fourth quarter and the lowest line losses in over five years. We achieved an excellent 79% share of broadband[5] market net additions in the quarter.

"BT Global Services delivered a 9% increase in its order intake this year and continued to see double-digit revenue increases in the high-growth regions of the world. BT Business and BT Wholesale have also delivered decent order intakes. Our cost transformation programmes are helping to drive the strong cash flow of the group.

"These results provide a strong platform for growth and from which to achieve our outlook for the years ahead. Our performance in the year means that we are growing our full year dividend by 15% to 10.9p and we now expect to increase our dividend by 10%-15% for each of the next two years. We continue to focus on improving the service we provide to our customers and delivering on our investments."

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements
[2] Before specific items
[3] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals
[4] Before specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments
[5] DSL and fibre

Key points for the fourth quarter:

- Underlying revenue excluding transit up 1.2%
- EBITDA[1] up 2% and earnings per share[1] up 10%
- Underlying operating costs[2] excluding transit up 0.5%; down 5% excluding our investments in BT Sport and the non-cash increase in the pensions operating charge
- 347,000 net fibre connections, up 28%, of which 249,000 are BT retail customers
- BT Global Services order intake of £2.2bn, up 13%

Key points for the year:

- Underlying revenue excluding transit up 0.5%, reversing decline of 3.1% in prior year and achieving our outlook of an improved trend
- EBITDA[1] flat at £6,116m compared with our outlook of £6.0bn-£6.1bn
- Normalised free cash flow[3] of £2,450m, up £150m, ahead of our outlook of around £2.3bn
- Underlying operating costs[2] down 3% excluding transit, our investments in BT Sport and the non-cash increase in the pensions operating charge
- Earnings per share[1] up 7%
- Net debt at £7,028m, down £769m
- Proposed final dividend of 7.5p, up 15%, giving full year dividend of 10.9p, also up 15%

Future outlook:

We are confident we will achieve our goal of sustainable, profitable revenue growth and we have updated our outlook as set out below:

	2013/14 results	2014/15	2015/16
Underlying revenue excluding transit	Up 0.5%	Broadly level	Growth
EBITDA[1]	£6,116m	£6.2bn-£6.3bn	Growth
Normalised free cash flow[3]	£2,450m	Above £2.6bn	Growth
Dividend per share	Up 15%	Up 10%-15%	Up 10%-15%
Share buyback programme	£302m	c.£300m	c.£300m

- 2014/15 underlying revenue excluding transit expected to be broadly level with 2013/14 despite an expected negative year on year impact of around £100m in UK local government revenues
- 2014/15 normalised free cash flow[3] outlook above our previous expectations reflecting capital expenditure efficiencies. Cash flow growth to continue in 2015/16
- Dividend and share buyback policy extended by one year to 2015/16

[1] Before specific items
[2] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals and is before depreciation and amortisation
[3] Before specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments

GROUP RESULTS FOR THE FOURTH QUARTER AND YEAR TO 31 MARCH 2014

	Fourth quarter to 31 March			Year to 31 March		
	2014	2013[1]	Change	**2014**	2013[1]	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- adjusted[2]	**4,748**	4,815	(1)	**18,287**	18,339	0
- reported (see Note below)	**4,748**	4,815	(1)	**18,287**	18,103	1
- underlying revenue excluding transit			1.2			0.5
EBITDA						
- adjusted[2]	**1,705**	1,664	2	**6,116**	6,143	0
- reported (see Note below)	**1,611**	1,513	6	**5,840**	5,791	1
Operating profit						
- adjusted[2]	**1,054**	972	8	**3,421**	3,300	4
- reported	**960**	821	17	**3,145**	2,948	7
Profit before tax						
- adjusted[2]	**901**	824	9	**2,827**	2,656	6
- reported	**747**	639	17	**2,312**	2,315	0
Earnings per share						
- adjusted[2]	**9.0p**	8.2p	10	**28.2p**	26.3p	7
- reported	**7.2p**	7.1p	1	**25.7p**	24.8p	4
Full year proposed dividend				**10.9p**	9.5p	15
Capital expenditure[3]	**574**	648	(11)	**2,346**	2,438	(4)
Normalised free cash flow[4]	**1,346**	1,301	3	**2,450**	2,300	7
Net debt				**7,028**	7,797	£(769)m

Note: Reported revenue and EBITDA in the year to 31 March 2013 included a specific item charge of £151m and £36m, respectively, relating to Ofcom's determinations on historic Ethernet pricing as well as a specific item charge of £85m and £58m, respectively, relating to the retrospective regulatory impact of the Court of Appeal decision on ladder pricing.

Line of business results[2]

	Revenue			EBITDA			Free cash flow[4]		
Fourth quarter to 31 March	**2014**	2013[1]	Change	**2014**	2013[1]	Change	**2014**	2013[1]	Change
	£m	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**1,857**	1,934	(4)	**286**	264	8	**517**	454	14
BT Business	**895**	922	(3)	**287**	284	1	**280**	304	(8)
BT Consumer	**1,068**	982	9	**269**	256	5	**216**	218	(1)
BT Wholesale	**571**	669	(15)	**152**	161	(6)	**219**	178	23
Openreach	**1,271**	1,276	0	**694**	683	2	**460**	410	12
Other and intra-group items	**(914)**	(968)	(6)	**17**	16	6	**(346)**	(263)	32
Total	**4,748**	4,815	(1)	**1,705**	1,664	2	**1,346**	1,301	3
Year to 31 March									
BT Global Services	**7,041**	7,170	(2)	**932**	832	12	**389**	212	83
BT Business	**3,509**	3,516	0	**1,098**	1,047	5	**892**	907	(2)
BT Consumer	**4,019**	3,846	4	**833**	968	(14)	**472**	655	(28)
BT Wholesale	**2,422**	2,608	(7)	**614**	620	(1)	**372**	348	7
Openreach	**5,061**	5,115	(1)	**2,601**	2,642	(2)	**1,492**	1,475	1
Other and intra-group items	**(3,765)**	(3,916)	(4)	**38**	34	12	**(1,167)**	(1,297)	(10)
Total	**18,287**	18,339	0	**6,116**	6,143	0	**2,450**	2,300	7

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements
[2] Before specific items. Specific items are defined on page 4 and analysed in Note 4 to the condensed consolidated financial statements
[3] Before purchases of telecommunications licences
[4] Before specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments

Notes:

1. The commentary focuses on the trading results on an adjusted basis, which is a non-GAAP measure, being before specific items. Unless otherwise stated, revenue, operating costs, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, profit before tax, net finance expense, earnings per share (EPS) and normalised free cash flow are measured before specific items. This is consistent with the way that financial performance is measured by management and reported to the Board and the Operating Committee and assists in providing a meaningful analysis of the trading results of the group. The directors believe that presentation of the group's results in this way is relevant to the understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Specific items may not be comparable to similarly titled measures used by other companies. Reported revenue, reported operating costs, reported EBITDA, reported operating profit, reported profit before tax, reported net finance expense, reported EPS and reported free cash flow are the equivalent unadjusted or statutory measures. Reconciliations of revenue, operating costs and operating profit are set out in the Group income statement. Specific items are set out in Note 4. Reconciliations of EBITDA, adjusted profit before tax and adjusted EPS to the nearest measures prepared in accordance with IFRS are provided in Notes 7, 8 and 9 respectively.

2. Trends in underlying revenue, trends in underlying operating costs, and underlying EBITDA are non-GAAP measures which seek to reflect the underlying performance of the group that will contribute to long-term profitable growth and as such exclude the impact of acquisitions and disposals, foreign exchange movements and any specific items. We focus on the trends in underlying revenue and underlying operating costs excluding transit as transit traffic is low-margin and is significantly affected by reductions in mobile termination rates.

Enquiries

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The fourth quarter and full year 2013/14 results presentation for analysts and investors will be held in London at 9.00am today and a simultaneous webcast will be available at www.bt.com/results

The BT Group plc Annual Report & Form 20-F 2014 is expected to be published on 22 May 2014. The Annual General Meeting of BT Group plc will be held at Old Billingsgate, 1 Old Billingsgate Walk, London, EC3R 6DX, on Wednesday 16 July 2014 at 11am.

Results for the first quarter to 30 June 2014 are expected to be announced on Thursday 31 July 2014.

About BT

BT is one of the world's leading providers of communications services and solutions, serving customers in more than 170 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 and internet products and services and converged fixed/mobile products and services. During the year BT Retail divided into two separate divisions and so BT now consists principally of five customer-facing lines of business: BT Global Services, BT Business, BT Consumer, BT Wholesale and Openreach.

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

For more information, visit www.btplc.com

BT Group plc

GROUP RESULTS FOR THE YEAR TO 31 MARCH 2014

Overview
Our results for the year were in line with or ahead of the outlook that we announced at the start of the year. They show that we are making good progress towards our goal of sustainable, profitable revenue growth. Underlying revenue excluding transit was up 0.5% for the year and 1.2% for the quarter - our investments are delivering and more than offset the regulatory pressures on our business.

During the fourth quarter we successfully completed the separation of BT Retail into two new businesses: BT Business and BT Consumer. We did this to allow us to better serve our SME and consumer customers and better deliver against our strategic priorities. We now have five customer-facing lines of business.

BT Global Services' investments in the high-growth regions of the world are delivering positive results. These continue to help offset revenue declines elsewhere within the division including in the UK public sector. BT Business reported an improved revenue trend, supported by IT services and growth in BT Ireland. BT Consumer generated strong revenue growth driven primarily by higher broadband and TV revenue reflecting the benefit of BT Sport. BT Wholesale's revenue was impacted by Ofcom's Narrowband Market Review and the migration of services off a previously terminated contract. The small decline in Openreach revenue reflects the impact of regulation which offset strong growth in fibre take-up.

All of our lines of business made good progress in transforming their costs. In BT Global Services, we are rolling out learnings from our UK cost transformation programmes to our operations worldwide. The progress it has made on costs underpinned its strong cash flow growth for the year. Cost transformation and an improved revenue performance also helped BT Consumer achieve EBITDA growth in the fourth quarter. Across the group we have focused on improving end-to-end processes which span our lines of business.

BT Global Services generated a good order intake of £6.9bn, up 9% for the year. BT Business also grew its orders, which were up 3% to £2.0bn. BT Wholesale achieved £1.9bn of orders - slightly down on last year, which included a number of major contract re-signs, but significantly higher than previous years. BT Consumer successfully launched BT Sport in August. We now have around 3m direct BT Sport customers and, including our wholesale deals, the service is in around 5m homes.

We have invested in customer service by introducing diagnostic tools and providing our engineers with new equipment to help identify and locate faults more quickly. Our customer service improved this year, but not by enough. This was partly because the widespread flooding across the UK led to record fault volumes and because the demand for BT Sport stretched our contact centre resources. We are making further investments to improve our customer service by enhancing the resilience of our network and training contact centre agents so they will have a wider range of skills.

Openreach is ahead of its original schedule with rolling out fibre having passed more than 19m premises, around two thirds of the UK. We are making good progress with extending the reach of fibre even further with all of our BDUK contracts now in build phase. In terms of take-up, Openreach achieved 1.3m net fibre additions, 45% more than last year and over 2.7m homes and businesses are now connected. We added 869,000 retail fibre broadband customers, and now have more than 2.1m customers. The UK broadband market[1] grew by 826,000 for the year, of which our share of net additions was 572,000, or 69%. Our share of net additions was 50% in the first quarter, prior to the launch of BT Sport, and 75% on average thereafter.

Income statement
Reported revenue was up 1%. Adjusted revenue, which excludes specific items, was flat at £18,287m. We had a £2m positive impact from foreign exchange movements, a £19m positive net impact from acquisitions and disposals and a £176m reduction in transit revenue.

Excluding these, our key measure of the group's revenue trend, underlying revenue excluding transit, was up 0.5% compared with a 3.1% decline last year. This reflects improved performances from BT Global Services, BT Consumer and BT Business whilst regulatory price reductions impacted revenue by £150m-£200m in the year.

Operating costs[2] decreased by £25m to £12,171m. Underlying operating costs[2] excluding transit were up 1%. Excluding the investment of around £450m in BT Sport and a £64m non-cash increase in the pensions operating charge, underlying operating costs[2] excluding transit decreased 3%.

[1] DSL and fibre
[2] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals and is before depreciation and amortisation

In aggregate, operating costs[1] and capital expenditure[2] have reduced by around £5bn over the last five years despite significant investment across the business.

Net labour costs decreased 2% as improved productivity and better systems and processes offset recruitment to support our investment programmes. Our cost transformation activities have enabled us to absorb the impact of wage inflation, higher pension costs and the insourcing of roles into BT. We have insourced around 10,000 jobs over the past five years, improving our processes and reducing our overall costs.

Payments to telecommunications operators were down 8% primarily reflecting lower transit volumes in BT Wholesale and lower call volumes in BT Consumer. Property and energy costs were 6% lower as a rate rebate and a 3% reduction in energy usage more than offset higher energy prices. BT Sport programme rights charges were £203m (2012/13: £nil). Other costs increased by £145m or 4% principally reflecting our investment in BT Sport.

Adjusted EBITDA of £6,116m was flat as our strong cost control offset our investment in BT Sport. Depreciation and amortisation decreased 5% to £2,695m largely due to more efficient delivery of our capital investment programmes in recent years.

Adjusted net finance expense was £591m, down £62m due to debt reduction and a lower average cost of debt.

Reported profit before tax (which includes specific items) was £2,312m, broadly level with the prior year. Adjusted profit before tax was £2,827m, up 6% reflecting the benefit of our focus on capital expenditure efficiencies and debt reduction. The effective tax rate on the profit before specific items for the year was 21.7% (2012/13: 22.5%).

Adjusted EPS of 28.2p was up 7%. Reported EPS (which includes specific items) was 25.7p, up 4%. These are based on a weighted average number of shares in issue of 7,857m (2012/13: 7,832m). A reconciliation of reported EPS to adjusted EPS is provided in Note 9.

Specific items

Specific items resulted in a net charge after tax of £196m (2012/13: £111m). Details are provided in Note 4 and the principal components are described below.

Restructuring charges of £276m (2012/13: £204m) were incurred as part of our group-wide restructuring programme and relate primarily to leavers, and property and network rationalisation. We expect further restructuring costs of around £200m in 2014/15. No further restructuring programmes are assumed within our financial outlook.

Net interest expense on pensions was £235m (2012/13: £117m). A specific item tax credit of £208m (2012/13: £103m) has also been recognised for the re-measurement of deferred tax balances due to the change in the UK corporation tax rate to 21% from 1 April 2014 and 20% from 1 April 2015.

Capital expenditure

Capital expenditure[2] was £2,346m. This was 4% lower than last year as efficiencies offset our ongoing fibre programme and continuing investments in systems and networks to transform our cost base.

Free cash flow

Normalised free cash flow[3] was up £150m or 7% at £2,450m. The increase reflects a strong performance within BT Global Services, which includes around £60m of early customer receipts for services to be delivered in 2014/15. It also reflects lower tax, interest payments and capital expenditure, offset by our investment in BT Sport and a working capital outflow partly reflecting the timing of programme rights payments.

The cash cost of specific items was £356m (2012/13: £366m) mainly comprising restructuring costs of £267m (2012/13: £147m), property rationalisation costs of £55m (2012/13: £55m) and payments relating to provisions for claims of £16m (2012/13: £nil). Reported free cash flow, which includes specific items and a £77m (2012/13: £560m) tax benefit from pension deficit payments, was £2,171m (2012/13: £2,292m).

A reconciliation of cash generated from operations to free cash flow is provided in Note 5.

[1] Before depreciation and amortisation
[2] Before purchases of telecommunications licences
[3] Before specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments

Net debt and liquidity
Net debt was £7,028m at 31 March 2014, a reduction of £769m in the year reflecting the strong cash generation of the business. This reduction was after making £325m of pension deficit payments, the share buyback cost of £302m for 86m shares and dividend payments of £778m. At 31 March 2014 the group had cash and current investment balances of £2.5bn and available facilities of a further £1.5bn providing us with a strong liquidity and funding position.

Out of total gross debt of £9.5bn, £1.7bn is repayable in 2014/15. During the year we issued three US dollar bonds amounting to £1.2bn and repaid maturing term debt of £0.3bn.

Pensions
The IAS 19 net pension position at 31 March 2014 was a deficit of £5.6bn net of tax (£7.0bn gross of tax), compared with £5.8bn (£7.3bn gross of tax) at 31 December 2013 and £4.5bn (£5.9bn gross of tax) at 31 March 2013. The decline in the deficit over the quarter mainly reflects the £325m deficit payment that was made in March. We estimate that on a median valuation basis, which reflects the expected returns from the assets held and likely liabilities, the BT Pension Scheme (BTPS) surplus was around £0.5bn.

The pensions operating charge in the income statement was £463m and we expect the 2014/15 charge to be broadly similar. The 2014/15 net pension interest expense within specific items is expected to be around £290m with the increase from £235m this year mainly reflecting the higher IAS 19 deficit at 31 March 2014 compared with the prior year. The next BTPS triennial actuarial funding valuation will be conducted as at 30 June 2014.

Regulation
A number of regulatory and legal decisions affected us during the year and will impact us in the future. The WLR, LLU and ISDN30 charge controls, the Leased Lines Charge Control and the Narrowband Market Review impacted revenue and EBITDA by £150m - £200m in the year.

We are awaiting a decision from the Supreme Court on our appeal against a previous Court of Appeal ruling on ladder pricing. This had determined that the ladder termination pricing policy that we previously had in place (for 0800, 0845 and 0870 calls from mobile phones terminating on our network) should not have been applied. There would be no further financial impact if our appeal is unsuccessful.

We are also awaiting the decision of the Competition Appeal Tribunal on appeals against Ofcom's December 2012 determinations on the level of Ethernet prices that we set from April 2006 to March 2011. We are seeking a reduction of up to £85m in the determined repayments while other parties have sought additional repayments of up to £125m.

Dividends
The Board is proposing a final dividend of 7.5p, up 15%, giving a full year dividend of 10.9p, also up 15% (2012/13: 14%). Subject to shareholder approval, this will be paid on 8 September 2014 to shareholders on the register at 15 August 2014. The ex-dividend date is 13 August 2014. The final dividend, amounting to approximately £611m (2012/13: £512m), will be recognised as an appropriation of retained earnings in the quarter to 30 September 2014.

Principal risks and uncertainties
The group's principal risks and uncertainties are disclosed in Note 11.

Outlook
Our investments are delivering for the business and we expect them to support our goal of sustainable, profitable revenue growth. We are also confident there are significant opportunities for further cost transformation across the group. Together, these will drive long-term cash flow growth. We will continue with our prudent financial policy of investing in our business, reducing net debt (targeting a BBB+/Baa1 credit rating over the medium term), supporting the pension fund and paying progressive dividends.

In 2014/15, lower levels of expenditure in the UK local government sector, and our focus on only pursuing business in this sector that generates economic value, are expected to impact revenue by around £100m. We therefore expect underlying revenue excluding transit to be broadly level with 2013/14. We expect growth in 2015/16.

We continue to expect adjusted EBITDA of £6.2bn-£6.3bn in 2014/15 with further growth in 2015/16. As a result of capital expenditure efficiencies, we now expect normalised free cash flow to be above £2.6bn in 2014/15. We continue to expect normalised free cash flow to grow in 2015/16.

We have extended our dividend policy by one year and now expect to grow our dividend by 10%-15% in both 2014/15 and 2015/16. We have also extended our £300m annual share buyback to the 2015/16 financial year. This will partly counteract the dilutive effect of all-employee share option plans maturing over this period.

GROUP RESULTS FOR THE FOURTH QUARTER TO 31 MARCH 2014

Income statement

Revenue of £4,748m was down 1% in the quarter with a reduction of £56m in transit revenue and a £70m negative impact from foreign exchange movements.

Underlying revenue excluding transit increased 1.2%, above the rate of increase for the year as a whole reflecting stronger performances from BT Global Services and BT Consumer.

Operating costs[1] decreased by £108m, or 3%. Underlying operating costs[2] excluding transit were up 0.5%. Excluding our investment of around £130m in BT Sport and the non-cash increase in the pensions operating charge, underlying operating costs[2] excluding transit reduced 5%.

Adjusted EBITDA increased 2% to £1,705m.

Depreciation and amortisation decreased 6% to £651m largely due to more efficient delivery of our capital investment programmes in recent years. Adjusted net finance expense was £153m, an increase of 3%.

Adjusted profit before tax was £901m, up 9%. Reported profit before tax (which includes specific items) was £747m, up 17%.

The effective tax rate on the profit before specific items for the quarter was 21.2% (Q4 2012/13: 22.0%).

Adjusted EPS of 9.0p was up 10%. Reported EPS (which includes specific items) was 7.2p, up 1%. These are based on a weighted average number of shares in issue of 7,858m (Q4 2012/13: 7,838m).

Specific items

Specific items in the quarter resulted in a net charge after tax of £144m (Q4 2012/13: £88m). Restructuring charges of £94m (Q4 2012/13: £151m) were incurred as part of our group-wide restructuring programme. Net interest expense on pensions was £59m (Q4 2012/13: £32m) and we recognised a tax charge on re-measurement of deferred tax balances of £23m (Q4 2012/13: credit of £27m).

Capital expenditure

Capital expenditure[3] was £574m, down 11% primarily reflecting efficiencies. We received grant funding of £55m in the quarter relating to our activity on the BDUK programme.

Free cash flow

Normalised free cash flow was £1,346m, up 3%. This increase primarily reflects around £60m of early customer receipts for services to be delivered in 2014/15 and the higher EBITDA, partly offset by higher tax payments. The second bi-annual payment of around £120m for the Premier League rights was also made in the quarter.

The cash cost of specific items, reflecting restructuring costs, was £92m (Q4 2012/13: £147m). Reported free cash flow, which includes specific items and a £19m (Q4 2012/13: £79m) tax benefit from pension deficit payments, was £1,273m (Q4 2012/13: £1,031m).

Fibre and broadband

Openreach achieved 347,000 net fibre connections in the quarter, an increase of 28%. We added 249,000 BT retail fibre customers, our best ever quarter. Overall DSL and fibre broadband market net additions were 217,000, 24% down on last year partly reflecting the increased focus on repair activity rather than provision following the adverse weather. We added 170,000 retail broadband customers representing 79% of the DSL and fibre broadband market net additions.

[1] Before depreciation and amortisation
[2] Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals and is before depreciation and amortisation
[3] Before purchases of telecommunications licences

OPERATING REVIEW

BT Global Services

	Fourth quarter to 31 March				Year to 31 March			
	2014	2013[1]	Change		**2014**	2013[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,857**	1,934	(77)	(4)	**7,041**	7,170	(129)	(2)
- underlying excluding transit				0				(1)
Operating costs	**1,571**	1,670	(99)	(6)	**6,109**	6,338	(229)	(4)
EBITDA	**286**	264	22	8	**932**	832	100	12
Depreciation & amortisation	**153**	160	(7)	(4)	**606**	625	(19)	(3)
Operating profit	**133**	104	29	28	**326**	207	119	57
Capital expenditure	**125**	150	(25)	(17)	**495**	524	(29)	(6)
Operating cash flow	**517**	454	63	14	**389**	212	177	83

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements

Revenue
Revenue was down 4% in the quarter reflecting an £11m decrease in transit revenue and a £64m negative impact from foreign exchange movements. Underlying revenue excluding transit was flat. For the year, revenue was down 2% with underlying revenue excluding transit down 1%.

In the quarter, we again generated double-digit underlying revenue growth in the high-growth regions of Asia Pacific, Latin America, Turkey, the Middle East and Africa. This was offset by declines across our other regions, with lower public sector revenue in the UK.

Total order intake was £2.2bn in the quarter, up 13%, and £6.9bn in the year, up 9%. In the quarter, we signed contracts across all of our key geographies. We agreed with the Department of Health and the Health and Social Care Information Centre to continue to deliver N3, which provides secure national broadband services to the NHS. We agreed a contract with Jabil Circuit for the outsourcing of managed network services in Asia Pacific, Europe and the Americas.

We extended our global networked IT services contract with Syngenta, one of the world’s largest agriculture companies. We signed an agreement with VIVA Bahrain to build a wholesale hub interconnecting fixed and mobile legacy and next generation networks. We agreed a contract for network and VoIP services covering Banco Santander branches across Germany and a contract for a range of network services with La Poste.

Operating results
Operating costs declined 6% in the quarter and 4% in the year. Underlying operating costs excluding transit declined 2% in the quarter and 3% in the year reflecting the benefit of our cost transformation programmes.

Improved utilisation and the rationalisation of our networks, as well as replicating the forensic approach we use to improve process efficiency in our UK business, are reducing costs across Europe, Latin America and the US. We are also focused on improving supplier value-for-money.

EBITDA in the quarter increased 8%. This was below the growth rate in the third quarter which benefited from the timing of contract milestones. EBITDA for the year was up 12%. Excluding foreign exchange movements, underlying EBITDA increased 10% in the quarter and 14% for the year. Depreciation and amortisation reduced 4% in the quarter as a result of lower capital expenditure in recent years and operating profit improved by £29m.

Capital expenditure declined 17% in the quarter due to the timing of spend on our networks, systems and product portfolios, lower spend on overseas properties and the timing of customer contract commitments.

Operating cash flow was an inflow of £517m in the quarter, an improvement of £63m compared with the prior year. This includes around £60m of early customer receipts for services to be delivered in 2014/15. Operating cash flow for the year was £389m, an improvement of £177m reflecting the higher EBITDA, the early customer receipts and lower capital expenditure.

BT Business

	Fourth quarter to 31 March				Year to 31 March			
	2014	2013[1]	Change		**2014**	2013[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**895**	922	(27)	(3)	**3,509**	3,516	(7)	0
- underlying excluding transit				(2)				(1)
Operating costs	**608**	638	(30)	(5)	**2,411**	2,469	(58)	(2)
EBITDA	**287**	284	3	1	**1,098**	1,047	51	5
Depreciation & amortisation	**46**	59	(13)	(22)	**206**	245	(39)	(16)
Operating profit	**241**	225	16	7	**892**	802	90	11
Capital expenditure	**34**	29	5	17	**133**	147	(14)	(10)
Operating cash flow	**280**	304	(24)	(8)	**892**	907	(15)	(2)

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements

Revenue

Revenue was down 3% in the quarter and flat for the year. Excluding a £6m negative impact from foreign exchange movements, underlying revenue excluding transit was down 2% for the quarter. Underlying revenue excluding transit was down 1% for the year.

SME & Corporate voice revenue was down 2% in the quarter. Call and line volumes have continued to decline partly reflecting the migration of customers to VoIP services. The number of business lines has declined 8%. The effect on our revenue was partly offset by an increase in average spend per customer.

SME & Corporate data and networking revenue was up 2% in the quarter driven by growth in broadband revenue, with more customers choosing to take fibre services.

IT services underlying revenue was down 7% in the quarter but grew 1% in the year. The decline in the quarter reflects a particularly strong performance in the prior year, as well as lower hardware sales.

BT Conferencing underlying revenue was down 2% in the quarter and the year as continued lower hardware sales and lower audio prices were partly offset by growth in usage. Underlying revenue excluding transit in BT Ireland was up 2% in the quarter.

Other BT Business revenue was down £14m in the quarter with declines in our legacy businesses – BT Directories, BT Redcare and BT Payphones – partly offset by growth in BT Fleet.

Order intake was up 12% for the quarter at £516m and up 3% for the year at £2.0bn.

Operating results

Operating costs were down 5% in the quarter and 2% in the year, primarily reflecting the impact of our cost transformation programmes. We have realised cost synergies by combining BT Enterprises, the non-consumer parts of BT Ireland and the previous Business unit together into one organisation. This has enabled us to reduce total labour resource by 7%.

EBITDA grew 1% in the quarter and 5% for the year. Excluding foreign exchange movements and our acquisition of Tikit Group last year, underlying EBITDA grew 2% in the quarter and 4% for the year. Depreciation and amortisation was 22% lower in the quarter, partly due to a one-off adjustment. This contributed to operating profit growing 7% in the quarter.

Capital expenditure increased £5m in the quarter due to the phasing of expenditure in the prior year. Operating cash flow decreased 8% in the quarter and 2% in the year, mainly driven by the timing of working capital movements.

BT Consumer

	Fourth quarter to 31 March				Year to 31 March			
	2014	2013[1]	Change		**2014**	2013[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,068**	982	86	9	**4,019**	3,846	173	4
Operating costs	**799**	726	73	10	**3,186**	2,878	308	11
EBITDA	**269**	256	13	5	**833**	968	(135)	(14)
Depreciation & amortisation	**56**	61	(5)	(8)	**219**	248	(29)	(12)
Operating profit	**213**	195	18	9	**614**	720	(106)	(15)
Capital expenditure	**47**	68	(21)	(31)	**211**	241	(30)	(12)
Operating cash flow	**216**	218	(2)	(1)	**472**	655	(183)	(28)

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements

Revenue
Revenue increased 9% in the quarter, a strong performance, driven by 24% growth in broadband and TV revenue reflecting the impact of BT Sport. This growth contributed to a year on year increase in ARPU of 7% to £391. We have also seen an improved trend in calls and lines revenue which increased 1% in the quarter. Revenue was up 4% for the year.

Consumer line losses of 49,000 in the quarter (Q4 2012/13: 154,000) were the lowest for more than five years. Strong consumer broadband subscriber growth contributed to BT adding 170,000 retail broadband customers, 79% of the DSL and fibre broadband market net additions. Plusnet has continued to perform well, growing its broadband customer base by more than 15% in the year.

We achieved our best ever quarter in fibre with 249,000 BT retail fibre broadband net additions, taking the customer base now to over 2.1m. We added 46,000 TV customers bringing the total to 1m. BT Wi-fi usage continued to grow with over 10.2bn minutes carried in the quarter, more than double last year.

In the quarter we launched a smaller, sleeker and more power efficient version of the YouView set-top box. We also added five new high definition channels to our line-up, bringing the total on our YouView service to 27. We will be closing our first generation TV service in the first quarter of 2014/15. We will exchange legacy set-top boxes for new YouView boxes and anticipate some impact on TV customer churn during this period.

We now have around 3m direct BT Sport customers, which include those watching via satellite, BT TV, online or via the app. Including our wholesale deals, BT Sport is now in around 5m homes. During the quarter we further strengthened our BT Sport proposition: we extended our exclusive live German Bundesliga football rights for the UK and Republic of Ireland until 2017 and started to broadcast Moto GP and coverage of the World Rally Championship.

Operating results
Operating costs increased 10% in the quarter. This reflects our investment of around £130m in BT Sport and costs associated with the increased revenue, which were partly offset by our cost transformation activities. EBITDA was up 5%. This was an improvement on recent quarters reflecting the better revenue performance. For the year, operating costs were up 11% and EBITDA was down 14% reflecting our investment of around £450m in BT Sport.

Depreciation and amortisation was down 8% in the quarter due to lower capital expenditure in recent years. Operating profit was up 9%.

Capital expenditure was down 31% in the quarter due to the BT Sport capital investment profile in the prior year. Operating cash flow decreased 1%. For the year, operating cash flow was 28% lower primarily reflecting the lower EBITDA and the deposit of around £60m for the UEFA Champions League and UEFA Europa League broadcast rights.

BT Wholesale

	Fourth quarter to 31 March				Year to 31 March			
	2014	2013[1]	Change		**2014**	2013[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**571**	669	(98)	(15)	**2,422**	2,608	(186)	(7)
- underlying excluding transit				(9)				(3)
Operating costs	**419**	508	(89)	(18)	**1,808**	1,988	(180)	(9)
EBITDA	**152**	161	(9)	(6)	**614**	620	(6)	(1)
Depreciation & amortisation	**59**	64	(5)	(8)	**245**	254	(9)	(4)
Operating profit	**93**	97	(4)	(4)	**369**	366	3	1
Capital expenditure	**56**	52	4	8	**244**	233	11	5
Operating cash flow	**219**	178	41	23	**372**	348	24	7

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements

Revenue
Revenue decreased 15% in the quarter and 7% in the year. This included a decline in transit revenue of £44m in the quarter and £119m in the year, driven by lower volumes and mobile termination rate reductions.

Underlying revenue excluding transit decreased 9% for the quarter and 3% for the year. The reduction in the quarter was primarily due to a 24% decline in traditional calls and lines revenue, in part due to lower fixed termination rates following Ofcom's Narrowband Market Review.

Managed solutions revenue for the quarter recovered from a low third quarter but was still down on last year. The decline reflects the ongoing impact of the Post Office contract termination which was partly offset by some contract renewals in the quarter. Broadband revenue declined 17% as lines continue to migrate to LLU. The declines in managed solutions and broadband revenues were partially offset by strong growth in IP services of 38%.

Order intake was £525m taking the total to £1.9bn. This was slightly down on last year's £2.0bn intake, which included a number of major contract re-signs, but significantly higher than in previous years. This quarter we signed a contract with Telefonica (O2) UK for a data centre service to support their 4G rollout plans, as well as new connectivity and ICT business services. We also agreed a three year contract with them for a managed engineering service for their ICT customers. We re-signed a contract with Claranet to provide a range of products including Ethernet, broadband, voice and equipment. We also re-signed contracts with a number of customers for multi-year private circuit and Ethernet services.

Operating results
Operating costs decreased 18% in the quarter. Underlying operating costs excluding transit reduced 11% reflecting lower cost of sales, due to the lower revenue, and the benefit of our cost transformation activities. We reduced selling and general administration costs 22% in the quarter. We also continued to remove redundant exchange equipment from our legacy broadband network. This project is expected to reduce annualised energy costs by around £10m.

EBITDA decreased 6% in the quarter and 1% for the year. Depreciation and amortisation decreased 8% in the quarter. Operating profit decreased 4% in the quarter but increased 1% for the year.

Capital expenditure increased £4m or 8% in the quarter. Operating cash flow was an inflow of £219m, up 23% due to the timing of customer receipts. Operating cash inflow increased by 7% for the year.

Openreach

	Fourth quarter to 31 March				Year to 31 March			
	2014	2013[1]	Change		**2014**	2013[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,271**	1,276	(5)	0	**5,061**	5,115	(54)	(1)
Operating costs	**577**	593	(16)	(3)	**2,460**	2,473	(13)	(1)
EBITDA	**694**	683	11	2	**2,601**	2,642	(41)	(2)
Depreciation & amortisation	**337**	355	(18)	(5)	**1,406**	1,428	(22)	(2)
Operating profit	**357**	328	29	9	**1,195**	1,214	(19)	(2)
Capital expenditure	**252**	293	(41)	(14)	**1,049**	1,144	(95)	(8)
Operating cash flow	**460**	410	50	12	**1,492**	1,475	17	1

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements

Revenue
Revenue was flat in the quarter and down 1% in the year. Regulatory price changes had a negative impact of around £70m in the quarter and around £260m in the year, the equivalent of around 5%. In the quarter this was mostly offset by 63% growth in fibre broadband revenue and a 3% increase in Ethernet revenue.

The physical line base grew by 6,000 in the quarter. It grew 83,000 over the year compared with a 54,000 increase last year.

We have passed over 19m premises with our fibre rollout, around two thirds of UK premises. As a result, the UK now boasts the widest fibre broadband coverage of the five largest Western European countries. We continue to make progress with extending the reach of fibre beyond our commercial footprint. We have now started the build phase in all 44 areas of the BDUK contracts we have won. We passed around 315,000 premises in these areas in the quarter, and have now passed more than 630,000 in total.

We achieved 347,000 net fibre connections in the quarter, an increase of 28%, and 1.3m net connections in the year, an increase of 45%. This almost doubled the number of homes and businesses now connected to over 2.7m. Overall broadband market net additions were 217,000, 24% down on last year partly reflecting the increased focus on repair activity rather than provision following the adverse weather.

Operating results
Operating costs reduced 3% in the quarter. Cost efficiencies and some one-off benefits more than offset pay inflation and the additional work to help people whose service was affected by the adverse weather. EBITDA increased 2%, and with depreciation and amortisation down 5%, operating profit was up 9%. EBITDA was down 2% for the year.

Capital expenditure decreased 14% in the quarter. While our commercial fibre build is nearing completion, we have maintained the same intensity of overall fibre rollout through the BDUK programme. We received £55m of grant funding in the quarter relating to this. Operating cash flow increased 12%, largely reflecting lower capital expenditure. Operating cash flow increased 1% in the year.

FINANCIAL STATEMENTS

Group income statement

For the fourth quarter to 31 March 2014

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	4,748	-	**4,748**
Operating costs	3	(3,694)	(94)	**(3,788)**
Operating profit		1,054	(94)	**960**
Finance expense		(155)	(59)	**(214)**
Finance income		2	-	**2**
Net finance expense		(153)	(59)	**(212)**
Loss on disposal of joint ventures		-	(1)	**(1)**
Profit before tax		901	(154)	**747**
Tax		(191)	10	**(181)**
Profit for the period		710	(144)	**566**
Earnings per share	9			
- basic		9.0p		**7.2p**
- diluted		8.6p		**6.8p**

Group income statement

For the fourth quarter to 31 March 2013

	Note	Before specific items Restated[1] £m	Specific items (Note 4) Restated[1] £m	Total Restated[1] £m
Revenue	2	4,815	-	**4,815**
Operating costs	3	(3,843)	(151)	**(3,994)**
Operating profit		972	(151)	**821**
Finance expense		(151)	(34)	**(185)**
Finance income		3	-	**3**
Net finance expense		(148)	(34)	**(182)**
Profit before tax		824	(185)	**639**
Tax		(181)	97	**(84)**
Profit for the period		643	(88)	**555**
Earnings per share	9			
- basic		8.2p		**7.1p**
- diluted		7.8p		**6.8p**

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements

Group income statement
For the year to 31 March 2014

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	18,287	-	**18,287**
Operating costs	3	(14,866)	(276)	**(15,142)**
Operating profit		3,421	(276)	**3,145**
Finance expense		(603)	(235)	**(838)**
Finance income		12	-	**12**
Net finance expense		(591)	(235)	**(826)**
Share of post tax loss of associates and joint ventures		(3)	-	**(3)**
Loss on disposal of associates and joint ventures		-	(4)	**(4)**
Profit before tax		2,827	(515)	**2,312**
Tax		(613)	319	**(294)**
Profit for the year		2,214	(196)	**2,018**
Earnings per share	9			
- basic		28.2p		**25.7p**
- diluted		26.9p		**24.5p**

Group income statement
For the year to 31 March 2013

	Note	Before specific items Restated[1] £m	Specific items (Note 4) Restated[1] £m	Total Restated[1] £m
Revenue	2	18,339	(236)	**18,103**
Operating costs	3	(15,039)	(116)	**(15,155)**
Operating profit		3,300	(352)	**2,948**
Finance expense		(666)	(119)	**(785)**
Finance income		13	-	**13**
Net finance expense		(653)	(119)	**(772)**
Share of post tax profits of associates and joint ventures		9	-	**9**
Profit on disposal of associate		-	130	**130**
Profit before tax		2,656	(341)	**2,315**
Tax		(597)	230	**(367)**
Profit for the year		2,059	(111)	**1,948**
Earnings per share	9			
- basic		26.3p		**24.8p**
- diluted		25.1p		**23.7p**

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements

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

	Fourth quarter to 31 March		Year to 31 March	
	2014	2013 Restated[1]	**2014**	2013 Restated[1]
	£m	£m	**£m**	£m
Profit for the period	**566**	555	**2,018**	1,948
Other comprehensive income (loss)				
Items that will not be reclassified to the income statement				
Actuarial losses relating to retirement benefit obligations	**(46)**	(733)	**(1,179)**	(3,569)
Tax on actuarial losses	**39**	162	**16**	762
Items that may be reclassified subsequently to the income statement				
Exchange differences on translation of foreign operations	**(6)**	116	**(176)**	59
Fair value movements on available-for-sale assets	**(3)**	16	**(27)**	14
Fair value movements on cash flow hedges:				
- net fair value (losses) gains	**(33)**	401	**(528)**	105
- recognised in income and expense	**48**	(335)	**384**	(168)
Tax on components of other comprehensive income that may be reclassified	**(16)**	(1)	**4**	24
Other comprehensive loss for the period, net of tax	**(17)**	(374)	**(1,506)**	(2,773)
Total comprehensive income (loss) for the period	**549**	181	**512**	(825)

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements

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

	Share capital £m	Share premium £m	Own shares £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 April 2012	**408**	**62**	**(1,018)**	**1,756**	**100**	**1,308**
Profit for the year[1]	-	-	-	-	1,948	1,948
Other comprehensive income (loss) before tax[1]	-	-	-	178	(3,569)	(3,391)
Tax on other comprehensive income (loss)[1]	-	-	-	24	762	786
Transferred to the income statement	-	-	-	(168)	-	(168)
Comprehensive income (loss)	-	-	-	34	(859)	(825)
Dividends to shareholders	-	-	-	-	(684)	(684)
Share-based payments	-	-	-	-	64	64
Tax on share-based payments	-	-	-	-	68	68
Net buyback of own shares	-	-	186	-	(379)	(193)
At 1 April 2013	**408**	**62**	**(832)**	**1,790**	**(1,690)**	**(262)**
Profit for the year	**-**	**-**	**-**	**-**	**2,018**	**2,018**
Other comprehensive loss before tax	**-**	**-**	**-**	**(731)**	**(1,179)**	**(1,910)**
Tax on other comprehensive loss	**-**	**-**	**-**	**4**	**16**	**20**
Transferred from the income statement	**-**	**-**	**-**	**384**	**-**	**384**
Comprehensive (loss) income	**-**	**-**	**-**	**(343)**	**855**	**512**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(781)**	**(781)**
Share-based payments	**-**	**-**	**-**	**-**	**60**	**60**
Tax on share-based payments	**-**	**-**	**-**	**-**	**106**	**106**
Net buyback of own shares	**-**	**-**	**3**	**-**	**(230)**	**(227)**
At 31 March 2014	**408**	**62**	**(829)**	**1,447**	**(1,680)**	**(592)**

[1] Certain results for the fourth quarter and year to 31 March 2013 have been restated. See Note 1 to the condensed consolidated financial statements

Group cash flow statement

	Fourth quarter to 31 March		Year to 31 March	
	2014	2013 Restated[1]	**2014**	2013 Restated[1]
	£m	£m	**£m**	£m
Profit before tax[1]	**747**	639	**2,312**	2,315
Depreciation and amortisation	**651**	692	**2,695**	2,843
Net finance expense[1]	**212**	182	**826**	772
Profit on disposal of subsidiary	**-**	-	**-**	(7)
Associates and joint ventures	**-**	-	**3**	(9)
Loss (profit) on disposal of associate	**1**	-	**4**	(130)
Share-based payments	**11**	9	**60**	64
Decrease (increase) in working capital	**513**	533	**(402)**	(2)
Provisions, pensions and other non-cash movements[2]	**(405)**	(412)	**(355)**	(487)
Cash inflow from operations	**1,730**	1,643	**5,143**	5,359
Tax paid	**(131)**	(25)	**(347)**	(64)
Net cash inflow from operating activities	**1,599**	1,618	**4,796**	5,295
Cash flow from investing activities				
Interest received	**2**	1	**6**	9
Dividends received from associates and joint ventures	**-**	2	**1**	3
Proceeds on disposal of property, plant and equipment	**3**	29	**10**	43
Acquisition of subsidiaries, net of cash acquired	**(3)**	(54)	**(21)**	(60)
Sale of subsidiaries, net of cash and bank overdrafts	**-**	-	**-**	17
Acquisition of joint ventures	**(1)**	-	**(3)**	(5)
Disposal of associates and joint ventures	**-**	-	**2**	270
Purchases of property, plant and equipment and software	**(547)**	(601)	**(2,356)**	(2,481)
Purchases of telecommunications licences	**-**	(202)	**-**	(202)
Net sale of non-current asset investments	**3**	-	**3**	1
Purchases of current financial assets	**(2,827)**	(2,200)	**(8,773)**	(8,875)
Sale of current financial assets	**1,911**	3,343	**7,531**	8,856
Net cash (used) received in investing activities	**(1,459)**	318	**(3,600)**	(2,424)
Cash flow from financing activities				
Interest paid	**(112)**	(141)	**(614)**	(701)
Equity dividends paid	**(267)**	(234)	**(778)**	(683)
New borrowings	**795**	2	**1,195**	798
Repayment of borrowings	**-**	(1,355)	**(321)**	(1,663)
Repayment of finance lease liabilities	**(7)**	(4)	**(18)**	(15)
Cash flows from derivatives related to net debt	**19**	39	**(209)**	33
Net (repayment of) proceeds on commercial paper	**(263)**	199	**(420)**	153
Proceeds on issue of own shares	**16**	12	**75**	109
Repurchase of ordinary share capital	**(74)**	(73)	**(302)**	(302)
Net cash received (used) in financing activities	**107**	(1,555)	**(1,392)**	(2,271)
Net increase (decrease) in cash and cash equivalents	**247**	381	**(196)**	600
Opening cash and cash equivalents	**446**	533	**919**	323
Net increase (decrease) in cash and cash equivalents	**247**	381	**(196)**	600
Effect of exchange rate movements	**(9)**	5	**(39)**	(4)
Closing cash and cash equivalents	**684**	919	**684**	919

[1] Certain results for the quarter and year ended 31 March 2013 have been restated, see Note 1 to the condensed consolidated financial statements
[2] Includes pension deficit payments of £325m in the quarter and year ended 31 March 2014 (2012/13: £325m)

Group balance sheet

	31 March 2014 £m	31 March 2013 £m
Non-current assets		
Intangible assets	**3,087**	3,258
Property, plant and equipment	**13,840**	14,153
Derivative financial instruments	**539**	1,080
Investments	**34**	64
Associates and joint ventures	**18**	28
Trade and other receivables	**214**	184
Deferred tax assets	**1,460**	1,438
	19,192	20,205
Current assets		
Programme rights	**108**	-
Inventories	**82**	103
Trade and other receivables	**2,907**	2,930
Current tax receivable	**26**	16
Derivative financial instruments	**114**	170
Investments	**1,774**	531
Cash and cash equivalents	**695**	924
	5,706	4,674
Current liabilities		
Loans and other borrowings	**1,873**	1,736
Derivative financial instruments	**139**	74
Trade and other payables	**5,261**	5,574
Current tax liabilities	**315**	100
Provisions	**99**	120
	7,687	7,604
Total assets less current liabilities	**17,211**	17,275
Non-current liabilities		
Loans and other borrowings	**7,941**	8,277
Derivative financial instruments	**679**	802
Retirement benefit obligations	**7,022**	5,856
Other payables	**898**	883
Deferred tax liabilities	**829**	1,209
Provisions	**434**	510
	17,803	17,537
Equity		
Ordinary shares	**408**	408
Reserves (deficit)	**(1,000)**	(670)
Total deficit	**(592)**	(262)
	17,211	17,275

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

The final results for the year to 31 March 2014 have been extracted from the audited consolidated financial statements which have not yet been delivered to the Registrar of Companies but are expected to be published on 22 May 2014. The financial statements for the fourth quarter to 31 March 2014 are unaudited.

The financial information set out above does not constitute the company's statutory accounts for the years to 31 March 2014 or 2013 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 2013 and 31 March 2014. Statutory accounts for the year to 31 March 2013 were approved by the Board of Directors on 9 May 2013, published on 23 May 2013 and delivered to the Registrar of Companies.

Changes in presentation and restatement of the financial statements

To simplify our reporting, starting from 1 April 2013 we no longer separately report other operating income. We have re-presented items previously reported as other operating income, as either revenue or a reduction in operating costs, as appropriate. Other operating income before specific items was £392m in the year ended 31 March 2013 (Q4 2012/13: £111m). This change increases group revenue by £86m for the year ended 31 March 2013 (Q4 2012/13: £30m) and reduces operating costs by £306m (Q4 2012/13: £81m). There is no impact on the group's EBITDA or profit before tax.

Effective from 1 April 2013, we have made a number of changes that simplify our internal trading and more closely align our line of business financial results with our regulatory accounts. We have also adjusted the disclosure of our lines of business to reflect customer account moves and to better reflect their commercial activity.

In July 2013, we announced the separation of BT Retail into two new lines of business – BT Business and BT Consumer. On 25 February 2014 we published revised financial and operational performance measures and, in order to present historical information on a consistent basis with the current year's results, we have revised comparative information for the year ended 31 March 2013 to reflect these changes. These impact the financial results of individual lines of business, but have no impact on the total group results.

Finally, IAS 19 Employee Benefits (Revised) came into effect from 1 April 2013 and we have restated comparative figures to reflect the position had it applied before this date. For the year ended 31 March 2013, this has increased operating costs by £38m (Q4 2012/13: £9m) and has reduced net finance income on pensions (treated as a specific item) by £148m (Q4 2012/13: £39m), resulting in an overall reduction of £38m in reported EBITDA (Q4 2012/13: £9m) and adjusted profit before tax. Reported profit before tax and reported profit after tax, which are after the impact of specific items, are reduced by £186m (Q4 2012/13: £48m) and £143m (Q4 2012/13: £36m), respectively. There is no impact on the group's free cash flow.

More details are set out in our related press releases published on 13 June 2013 and 25 February 2014.

2 Operating results – by line of business[1]

	External revenue £m	Internal revenue £m	Group revenue £m	Group EBITDA £m	Group operating profit £m
Fourth quarter to 31 March 2014					
BT Global Services	**1,857**	**-**	**1,857**	**286**	**133**
BT Business	**746**	**149**	**895**	**287**	**241**
BT Consumer	**1,054**	**14**	**1,068**	**269**	**213**
BT Wholesale	**571**	**-**	**571**	**152**	**93**
Openreach	**468**	**803**	**1,271**	**694**	**357**
Other and intra-group items[3]	**52**	**(966)**	**(914)**	**17**	**17**
Total	**4,748**	**-**	**4,748**	**1,705**	**1,054**
Fourth quarter to 31 March 2013 - restated[2]					
BT Global Services	1,934	-	1,934	264	104
BT Business	758	164	922	284	225
BT Consumer	970	12	982	256	195
BT Wholesale	669	-	669	161	97
Openreach	452	824	1,276	683	328
Other and intra-group items[3]	32	(1,000)	(968)	16	23
Total	4,815	-	4,815	1,664	972
Year to 31 March 2014					
BT Global Services	**7,041**	**-**	**7,041**	**932**	**326**
BT Business	**2,930**	**579**	**3,509**	**1,098**	**892**
BT Consumer	**3,970**	**49**	**4,019**	**833**	**614**
BT Wholesale	**2,422**	**-**	**2,422**	**614**	**369**
Openreach	**1,822**	**3,239**	**5,061**	**2,601**	**1,195**
Other and intra-group items[3]	**102**	**(3,867)**	**(3,765)**	**38**	**25**
Total	**18,287**	**-**	**18,287**	**6,116**	**3,421**
Year to 31 March 2013 - restated[2]					
BT Global Services	7,170	-	7,170	832	207
BT Business	2,937	579	3,516	1,047	802
BT Consumer	3,802	44	3,846	968	720
BT Wholesale	2,608	-	2,608	620	366
Openreach	1,747	3,368	5,115	2,642	1,214
Other and intra-group items[3]	75	(3,991)	(3,916)	34	(9)
Total	18,339	-	18,339	6,143	3,300

[1] Before specific items
[2] Restated, see Note 1 to the condensed consolidated financial statements
[3] Elimination of intra-group revenue, which is included in the total revenue of the originating business

3 Operating costs

	Fourth quarter to 31 March		Year to 31 March	
	2014	2013 Restated[1]	**2014**	2013 Restated[1]
	£m	£m	**£m**	£m
Direct labour costs	**1,177**	1,187	**4,689**	4,727
Indirect labour costs	**205**	205	**848**	845
Leaver costs	**4**	7	**14**	58
Total labour costs	**1,386**	1,399	**5,551**	5,630
Capitalised labour	**(253)**	(245)	**(996)**	(966)
Net labour costs	**1,133**	1,154	**4,555**	4,664
Payments to telecommunications operators	**567**	676	**2,472**	2,677
Property and energy costs	**204**	249	**959**	1,022
Network operating and IT costs	**136**	138	**591**	587
Programme rights charges	**77**	-	**203**	-
Other costs	**926**	934	**3,391**	3,246
Operating costs before depreciation, amortisation and specific items	**3,043**	3,151	**12,171**	12,196
Depreciation and amortisation	**651**	692	**2,695**	2,843
Total operating costs before specific items	**3,694**	3,843	**14,866**	15,039
Specific items (Note 4)	**94**	151	**276**	116
Total operating costs	**3,788**	3,994	**15,142**	15,155

[1] Restated, see Note 1 to the condensed consolidated financial statements

4 Specific items

The group separately identifies and discloses those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence (termed 'specific items'). This is consistent with the way that financial performance is measured by management and assists in providing a meaningful analysis of the trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies.

	Fourth quarter to 31 March		Year to 31 March	
	2014	2013 Restated[1]	**2014**	2013 Restated[1]
	£m	£m	**£m**	£m
Specific revenue				
Retrospective regulatory rulings	**-**	-	**-**	236
Specific operating items				
Restructuring charges	**94**	151	**276**	204
Profit on disposal of businesses	**-**	-	**-**	(7)
Retrospective regulatory rulings	**-**	-	**-**	(142)
Impairment charges	**-**	-	**-**	18
Provisions for claims	**-**	-	**-**	43
Specific operating costs	**94**	151	**276**	116
EBITDA impact (Note 7)	**94**	151	**276**	352
Net interest expense on pensions	**59**	32	**235**	117
Interest on provisions for claims	**-**	2	**-**	2
Loss (profit) on disposal of associates and joint ventures	**1**	-	**4**	(130)
Net specific items charge before tax	**154**	185	**515**	341
Tax credit on specific items before tax	**(33)**	(70)	**(111)**	(127)
Tax charge (credit) on re-measurement of deferred tax	**23**	(27)	**(208)**	(103)
Net specific items charge after tax	**144**	88	**196**	111

[1] Restated, see Note 1 to the condensed consolidated financial statements

5 Free cash flow

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

	Fourth quarter to 31 March		Year to 31 March	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Cash generated from operations	**1,730**	1,643	**5,143**	5,359
Tax paid	**(131)**	(25)	**(347)**	(64)
Net cash inflow from operating activities	**1,599**	1,618	**4,796**	5,295
Add back pension deficit payments	**325**	325	**325**	325
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	**(544)**	(774)	**(2,346)**	(2,640)
Dividends received from associates and joint ventures	**-**	2	**1**	3
Interest received	**2**	1	**6**	9
Net sale of non-current asset investments	**3**	-	**3**	1
Included in cash flows from financing activities				
Interest paid	**(112)**	(141)	**(614)**	(701)
Reported free cash flow	**1,273**	1,031	**2,171**	2,292
Net cash outflow from specific items	**92**	147	**356**	366
Cash tax benefit of pension deficit payments	**(19)**	(79)	**(77)**	(560)
Purchases of telecommunications licences	**-**	202	**-**	202
Normalised free cash flow	**1,346**	1,301	**2,450**	2,300

6 Net debt

Net debt is not a measure defined under IFRS but is a key indicator used by management to assess operational performance.

	At 31 March	
	2014	2013
	£m	£m
Loans and other borrowings[1]	**9,814**	10,013
Cash and cash equivalents	**(695)**	(924)
Current asset investments	**(1,774)**	(531)
	7,345	8,558
Adjustments:		
To re-translate currency denominated balances at swapped rates where hedged	**(24)**	(417)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	**(293)**	(344)
Net debt	**7,028**	7,797

[1] Includes overdrafts of £11m at 31 March 2014 (31 March 2013: £5m)

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

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

	Fourth quarter to 31 March		**Year to 31 March**	
	2014	2013 Restated[1]	**2014**	2013 Restated[1]
	£m	£m	**£m**	£m
Reported profit before tax	**747**	639	**2,312**	2,315
Share of post tax losses (profits) of associates and joint ventures	**-**	-	**3**	(9)
Loss (profit) on disposal of associates and joint ventures	**1**	-	**4**	(130)
Net finance expense	**212**	182	**826**	772
Operating profit	**960**	821	**3,145**	2,948
Depreciation and amortisation	**651**	692	**2,695**	2,843
Reported EBITDA	**1,611**	1,513	**5,840**	5,791
Specific items (Note 4)	**94**	151	**276**	352
Adjusted EBITDA	**1,705**	1,664	**6,116**	6,143

8 Reconciliation of adjusted profit before tax

	Fourth quarter to 31 March		**Year to 31 March**	
	2014	2013 Restated[1]	**2014**	2013 Restated[1]
	£m	£m	**£m**	£m
Reported profit before tax	**747**	639	**2,312**	2,315
Specific items (Note 4)	**154**	185	**515**	341
Adjusted profit before tax	**901**	824	**2,827**	2,656

9 Reconciliation of adjusted earnings per share

	Fourth quarter to 31 March		**Year to 31 March**	
	2014	2013 Restated[1]	**2014**	2013 Restated[1]
	pence per share		pence per share	
Reported basic earnings per share	**7.2**	7.1	**25.7**	24.8
Per share impact of specific items	**1.8**	1.1	**2.5**	1.5
Adjusted earnings per share	**9.0**	8.2	**28.2**	26.3

[1] Restated, see Note 1 to the condensed consolidated financial statements

10 Pensions

	31 March 2014 £bn	31 March 2013 £bn
IAS 19 liabilities - BTPS	**(46.7)**	(47.0)
Assets – BTPS	**39.9**	41.3
Other schemes	**(0.2)**	(0.2)
IAS 19 deficit, gross of tax	**(7.0)**	(5.9)
IAS 19 deficit, net of tax	**(5.6)**	(4.5)
Discount rate (nominal)	4.25%	4.20%
Discount rate (real)	0.97%	0.87%
RPI inflation	3.25%	3.30%
CPI inflation	0.75% below RPI until 31 March 2016 and 1.2% below RPI thereafter	0.75% below RPI until 31 March 2016 and 1.2% below RPI thereafter

11 Principal risks and uncertainties (extracted from the BT Group plc Annual Report & Form 20-F 2014)

Principal risks and uncertainties

This section sets out some of the principal risks and uncertainties affecting us, but it is not exhaustive. These risks have the potential to impact our business, brand, assets, revenue, profits, liquidity or capital resources. The principal risks we described last year have evolved, and so has our response to them.

Our Enterprise Risk Management framework provides reasonable (but cannot give absolute) assurance that significant risks are identified and addressed. There may be some risks which are unknown to us at present, and there may be some that we consider less significant now but become more important later.

As in the prior year, external factors present both risks and opportunities, both to our business and to others. Inevitably there are uncertainties in terms of the impact to BT should Scotland vote in favour of independence in September 2014. We have performed a high-level risk assessment of what those implications may be, and will continue to monitor the issue, seeking clarification on key questions from relevant parties where possible.

External factors drive a number of the risks that we face and we focus our efforts on predicting and mitigating these, while at the same time seeking to capitalise on opportunities that may emerge.

In the principal risks section below, we talk about what we are doing to stop our main risks materialising, or to limit their impact.

Our principal risks and uncertainties should be considered in conjunction with our risk management process, the forward-looking statements in this document, and the cautionary statement regarding forward-looking statements.

Our principal risks

Security and resilience

The volume of traffic through our systems and networks is always growing, and our customers' tolerance of service interruption is reducing as the world becomes increasingly dependent on information technology. Expectations are even higher when we stream live action through BT Sport. We have a responsibility to many millions of customers, both business and consumer, to safeguard their electronic information and to maintain the continuity of our services. We also need to safeguard the availability and security of our own data and intellectual property. This all requires the highest levels of operational resilience and security, which can be threatened at any time by malicious cyber-attacks, damage or theft of copper cable and equipment, vandalism, sabotage, extreme weather, component overload, loss of power and human error.

Impact
A breach of our security, or compromise of data or resilience affecting our operations, or those of our customers, could lead to an extended interruption to our services or even affect national infrastructure. Such failure may lead to a loss of customer confidence, termination of contracts, loss of revenue, and lower cash generation through penalties and unplanned costs of restoration and improvement. Additional reputational damage and financial loss may arise from a legal or contractual failing such as breaching data protection or handling requirements. Failure or interruption of data transfer could also have a significant adverse effect on our business.

Changes over the last year
The external cyber threat continues to rise, as shown by the amount of data traffic blocked by our malware filters and intrusion detection systems, and by the number of attempts to disrupt the websites that we manage. Criminal use of targeted phishing messages and other deception techniques are seen as the fastest growing risk. Government agencies around the world have raised their threat warning levels for cyber-attacks as larger numbers of credit and debit card records are reported stolen. In response, we have reinforced our cyber defences and automated them wherever possible. We have stepped up campaigns to educate and train our people in security awareness, vigilance and regulatory obligations. Access rights to our premises, systems and data continue to be closely monitored and restricted. The replacement of equipment that is approaching the end of its service life provides an opportunity to invest in new, more resilient facilities. As new technologies allow us to rationalise our property and systems estate the need for greater fall-back capacity increases. A comprehensive review of our disaster recovery capability is therefore underway, focusing on our most critical systems, databases and exchanges.

Risk mitigation
Our security strategy aims to prevent, deter and minimise the consequences of attacks. Our defences include physical protection of our assets, encryption of data, control of access rights, real-time analysis and sharing of intelligence, and continuous monitoring for intrusion, modifications and anomalies. We can rapidly adjust firewalls to automatically block most malicious data traffic. Our resilience stems from a combination of formal business continuity planning, well-tested, rapid and flexible responses and a widely distributed network with inherent spare capacity. We have a rolling programme of major incident simulations to test and refine our crisis management procedures. Together, these measures reduce the likelihood of a major incident and ensure that any potential interruption or damage can be contained and dealt with as quickly as possible.

Major contracts

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

The degree of risk generally varies depending on the scope and life of the contract and is typically higher in its early stages. Some customer contracts require investment in the early stages, which is expected to be recovered over the life of the contract. Major contracts often involve the implementation of new systems and communications networks, transformation of legacy networks and the development of new technologies. The recoverability of these upfront costs may be impacted by delays or failure to meet milestones. Substantial performance risk exists in these contracts.

Impact
Failure to manage or meet our commitments under these contracts, as well as changes in customers' requirements, budgets, strategies or businesses, may lead to a reduction in our expected future revenue, profitability and cash generation. Unexpectedly high costs associated with the delivery of contracts could also negatively impact profitability. We may lose revenue due to the merger, acquisition or business failure of customers, or due to contract termination, and contracts may therefore become loss-making. Failure to replace the revenue and earnings lost from those customers could lead to an overall reduction in group revenue, profitability and cash flow.

Changes over the last year
Tough market conditions and increased competitive pressures continue to persist in many global regions. In some regions we are experiencing higher growth in volume of business due to previous investments. This changes the risk landscape and the focus of risk support and review. In the year, the increasing number of broadband delivery contracts with local authorities through the BDUK programme is of particular note. While these contracts carry a

different risk profile from our other major contracts, we are applying our established risk governance and reporting processes to ensure that any risks and mitigation activities are identified and reported to management.

Risk mitigation
We have a group-wide risk governance and reporting framework and line of business local governance and risk management processes to track key risks and mitigation activities. This governance has been enhanced through the establishment in BT Global Services of a Contract Centre of Excellence, an additional Contract Compliance Function, and a Contract Bid Governance Board. Assurance is also provided through independent audits and at an individual contract level through an independent review programme. Progress on risks and mitigation actions agreed at such independent reviews are monitored and reported to relevant senior managers to ensure progress can be tracked.

Development programmes are in place to improve our people's skills and ability to identify and manage risk and to ensure learning from previous experience is passed on in training programmes. The scope and availability of training opportunities continues to improve in line with BT-wide learning and development initiatives.

Pensions

We have a significant funding obligation in relation to our defined benefit pension schemes and operate a large defined benefit pension scheme in the UK, the BT Pension Scheme (BTPS).

The BTPS faces similar risks to other defined benefit schemes. Future low investment returns, high inflation, longer life expectancy and regulatory changes may all result in the cost of funding the BTPS becoming a significant burden on our financial resources.

Following conclusion of the last actuarial funding valuation in May 2012, the valuation documentation was submitted to the Pensions Regulator. The final Court decision in the Crown Guarantee case, after any appeals, will give greater clarity as to the extent to which the liabilities of the BTPS are covered by a Crown Guarantee. This will inform the Pension Regulator's next steps with regards to the valuation of the Scheme. Accordingly, as matters stand, it is uncertain as to when it will conclude its review.

Impact
An increase in the pension deficit at the next actuarial valuation as at 30 June 2014 may have an impact on the level of deficit payments we are required to make into the scheme. Indirectly it may also have an adverse impact on our share price and credit rating. Any deterioration in our credit rating would increase our cost of borrowing and may limit the availability or flexibility of future funding, thereby affecting our ability to invest, pay dividends or repay debt as it matures.

Changes over the last year
The BTPS is affected by financial market conditions. When determining expected future returns, different factors are taken into account, including yields (or returns) on government bonds. Government bond yields have remained below the levels at the last funding valuation, driven by a number of factors, including the Bank of England's Quantitative Easing programme. If these conditions continue and a lower investment return assumption is adopted at the 30 June 2014 valuation, the liabilities may increase, potentially leading to a higher level of deficit payments.

The European Commission published draft revisions to the current Pensions Directive in March 2014. The proposed changes primarily focus on governance and transparency and are not expected to impact the valuation of pension liabilities.

In the UK, the Pensions Regulator has a new objective, to consider the impact on the sustainable growth of an employer when reviewing funding plans. As a result, the Pensions Regulator is revising its Code of Practice which is expected to be finalised later this year.

Risk mitigation
The investment performance and liability experience, as well as the associated risks and any mitigation, are regularly reviewed and monitored by both us and the BTPS Trustee. The BTPS has a well- diversified investment strategy, which reduces the impact of adverse movements in the value of individual asset classes and helps ensure that an efficient balance of risk and return is maintained.

Our financial strength and cash generation provide a level of protection that enables variations in the funding position of the BTPS to be managed without having a material impact on the ongoing performance of our business. The funding liabilities also include a buffer against any future negative experience, as legislation requires that liabilities are calculated prudently.

We regularly review risk mitigation options and in April 2013, we launched an exercise to allow existing BTPS pensioners to receive a higher upfront pension, by giving up some of their future pension increases. This exercise is now largely complete and is expected to remove the exposure in the scheme to future changes in inflation on around £2.5bn of liabilities.

Growth in a competitive market

We operate in markets which are characterised by: high levels of change; strong and new competition; declining prices and in some markets declining revenues; technology substitution; market and product convergence; customer churn; and regulatory intervention to promote competition and reduce wholesale prices.

A significant proportion of our revenue and profit is generated in the UK where the overall telecoms market has been in decline in real terms, despite strong volume growth in new services. Revenue from our calls and lines services to consumers and businesses has historically been in decline but new broadband and connectivity markets are growing. Our ability to deliver profitable revenue growth in a responsible and sustainable manner depends on us delivering on the strategic investments we are making.

Impact
Failure to achieve sustainable, profitable revenue growth could erode our competitive position and reduce our profitability, cash flow, and ability to invest for the future.

Changes over the last year
Despite the slight improvement in the UK economy in the year, customers are still cautious with their spending, especially those small business customers not planning to make technology changes. Regulatory decisions related to charge controls have impacted negatively our revenue and profits. Regulation has failed to address imbalances in the competitive playing field between the heavily regulated fixed telecoms sector and other sectors such as mobile and pay-TV. This means that some of our competitors in the consumer space continue to benefit from both limited regulation of their core business and extensive sector-specific regulation of our UK fixed-line business.

The consumer broadband and triple-play markets remain very competitive. Sky acquired O2 UK's consumer broadband business and continues to cross-sell broadband and telephony services to its pay-TV customers. Virgin Media (acquired by Liberty Global in the year) remains strong in these markets. In addition, the four main UK mobile operators launched 4G services during the year.

Risk mitigation
Our mitigation of this risk centres on successfully executing our strategy. We believe that delivering this strategy, with its focus on delivering superior customer service, transforming our costs, and investing for growth, will together help us deliver sustainable, profitable revenue growth. We are investing in our business, such as in fibre, content and the high-growth regions of the world. Our extensive cost transformation programme is already delivering savings and will continue to support profitability trends. We also believe we can mitigate this risk by seeking changes in regulation to level the playing field so that we can compete effectively and benefit our customers.

Communications industry regulation

Our activities across all the jurisdictions in which we operate can be impacted by regulation. In the UK where, following detailed market analysis, we are found to have significant market power, Ofcom can require us to provide wholesale services at regulated prices and service levels. It can also require us to make retrospective repayments to other CPs where we are found to have set prices outside regulatory requirements, and can impose fines on us for non-compliance with the regulatory rules, including competition law.

Outside the UK, general licensing requirements can restrict the extent to which we can enter markets and compete. Regulation will also define the terms on which we can purchase key wholesale services from others.

In the UK, risks can come from periodic market reviews (which might introduce tighter regulatory constraints), new charge controls or CPs disputing or complaining about our pricing, products or services. Outside the UK, regulators can investigate our licensing requirements and whether our services comply with their rules.

Impact
Regulatory requirements and constraints can directly impact our ability to compete effectively and earn revenues. Regulatory risks are highest in the UK. Based on the latest Regulatory Financial Statements for 2012/13, around £5.5bn of our revenue (of which £3.0bn is to downstream parts of BT) is from wholesale markets where we have

been found to have significant market power and which are currently subject to regulatory charge controls. Most of these controls require us to reduce our prices annually. Controls are usually set for three years and will therefore constrain revenues during that period.

Other CPs can ask Ofcom to resolve disputes with us about current or historic prices. Where Ofcom finds that these prices are, or have been, set at levels above those required under the regulatory framework, we may need to make retrospective repayments to CPs.

We may from time-to-time be required to provide new services, or existing services on improved terms, to wholesale customers on a non-discriminatory basis. This could increase our costs. Regulation outside the UK can impact our revenue by limiting our ability to compete through overly-restrictive licensing requirements or ineffective regulation of access to other CP networks.

Changes over the last year
Over the last year, we have seen regulatory activity in a number of areas. A number of these rulings will reduce our future pricing.

Risk mitigation
We have a team of regulatory specialists (including accountants and economists) who, together with legal experts and external advisors, continuously monitor and review the scope for regulatory changes and potential future disputes. This team maintains a dialogue with regulators and with other key influencers to ensure our positions are understood and to drive for fair and proportionate regulation. We are also able to appeal any regulatory decisions where we believe errors have been made.

Business integrity and ethics

We are committed to maintaining high standards of ethical behaviour, and have a zero tolerance approach to bribery and corruption. We have to comply with a wide range of local and international anti-corruption and bribery laws. In particular the UK Bribery Act and the US Foreign and Corrupt Practices Act (FCPA) provide comprehensive anti-bribery legislation. Both have extraterritorial reach and so cover our global operations. As we expand internationally, we are increasingly operating in countries identified as having a higher risk of bribery and corruption. We also have to ensure that we comply with trade sanctions, and import and export controls.

Impact
Failure by our employees or associated persons such as suppliers or agents to comply with anti-corruption and bribery and sanctions legislation could result in substantial penalties, criminal prosecution and significant damage to our reputation. This could in turn impact our future revenue and cash flow, the extent of which would depend on the nature of the breach, the legislation concerned and any associated penalties. Allegations of corruption or bribery, or violation of sanctions regulations, could also lead to reputational and brand damage with investors, regulators and customers.

Changes over the last year
The importance of conducting business ethically is becoming increasingly recognised across the globe as more countries introduce anti-corruption and bribery legislation. There have yet to be any significant judgments resulting from the UK Bribery Act, but there have been many significant enforcement actions brought under the US FCPA.

Comprehensive sanctions remain on Iran, Syria, Cuba, Sudan and North Korea. The European Union adopted additional restrictive measures against the Syrian regime and new sanctions on Russia.

Risk mitigation
We have in place a number of controls to address risk in this area. These include a comprehensive anti-corruption and bribery programme, and 'The Way We Work', our statement of business practices, which is available in 14 languages and was refreshed this year to give greater guidance to our people. We ask all our people to sign up to its principles and our anti-corruption and bribery policy. We have specific policies covering gifts and hospitality, charitable donations and sponsorship. We run a training programme with a particular focus on roles such as procurement and sales.

We regularly assess our business integrity risks to make sure that the appropriate mitigation is in place. We operate a confidential hotline which was externally reviewed during the year. Our internal audit team regularly runs checks on our business. We also use external providers to carry out assessments in areas we believe to be higher risk, to ensure our policies are understood and the controls are functioning. We conduct due diligence checks on third-parties including suppliers and agents. Procurement contracts include anti-corruption and bribery clauses.

This year we implemented a policy mandating the use of our internal shipping system to arrange all international exports. The system conducts compliance checks and flags any orders which require an export licence.

Supply chain

We aim to harness the capability, diversity and innovation of the global supply market to add value to our business and customers. The integrity and continuity of our supply chain is critical to our operations and therefore a significant risk to our business.

We are committed to ensuring that all dealings with suppliers, from selection and consultation through to contracting and payment, are conducted in accordance with our trading and ethical policies. We have a number of suppliers that we have identified as critical. The failure of one of these suppliers to meet its obligations could cause significant harm to our business.

Impact
While the size of the impact from a supplier failure can vary, all supplier failures typically result in an increased cost to our business and have the potential to adversely impact customer service and our brand. In many cases, the costs associated with the failure of a critical supplier could be significant, particularly if this results in our having to change technology. If we are unable to contract with an alternative supplier, our customer commitments could also be compromised, possibly leading to contractual breach, loss of revenue or penalties.

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

Changes over the last year
Economic conditions in certain markets and geographies continue to challenge some of our suppliers. Recent events in other markets, such as the food supply and clothing industries have highlighted the need to explore risks further down our supply chain, beyond our immediate suppliers. Protecting our brand from events in the supply chain, such as corrupt practices, the sourcing of conflict minerals or possible human rights abuse, continue to demand a high level of focus.

Risk mitigation
We conduct supplier risk analysis as part of our sourcing strategy, and where possible, take actions to reduce risk, such as through dual-sourcing where appropriate.

We operate a comprehensive in-life risk management programme that recognises the supplier’s criticality to BT and checks that the appropriate level of supplier governance is in place across the group. We regularly scan our suppliers for changes in commercial, financial, ethical, security or performance risks. This enables emerging risks to be addressed before they develop into issues while also ensuring that business continuity plans are in place to prevent repeat events.

This approach has been complemented by controls on our low spend suppliers that ensure we achieve maximum business benefit from them, but at the same time do not contract with too many suppliers which would expose us to unnecessary risk.

By adopting these approaches, we seek to minimise the risk of not meeting our customer and legal commitments, or complying with our ethical policies. This helps to reduce our exposure to loss of revenue, financial penalty or any adverse impact on our brand and reputation.

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: current and future years' outlook, including revenue growth, EBITDA and free cash flow growth; capital expenditure; net debt and credit rating; progressive dividends and our share buyback; further restructuring costs; further cost transformation; the pensions operating charge and net interest expense; our investment in fibre, the rollout progress and BDUK coverage; our investment in TV and our BT Sport proposition; and the impact of regulatory and legal decisions and outcomes of appeals.

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

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions, decisions, and conditions or requirements in BT's operating areas, including competition from others; selection by BT and its lines of business of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs, or impact on customer service; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services not being realised; the timing of entry and profitability of BT in certain communications markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the group-wide restructuring programme not being achieved; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.