

Financial results



Results for the full year to 31 March 2020

BT Group plc

7 May 2020

This announcement contains inside information

BT Group plc (BT.L) today announced its results for the full year to 31 March 2020.

Highlights:

- 2019/20 results overall in line with expectations
- New FTTP target to reach 20m premises by mid- to late-2020s, on the assumption we obtain the required critical enablers
- Phase 1 of our transformation programme complete; next phase of modernisation to deliver annualised gross benefits of £1bn by March 2023 and £2bn by March 2025, with £1.3bn one-off cost to achieve in total across the five years
- Keeping the nation connected during the Covid-19 crisis
- Final dividend suspended for 2019/20 and all dividends for 2020/21 to create capacity for value-enhancing investments and managing confidently through the Covid-19 crisis; expect to resume dividends in 2021/22 at an annual rate of 7.7 pence per share

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

"BT had a positive year delivering results in line with expectations and completing our £1.6bn phase 1 transformation programme, one year ahead of schedule.

"Covid-19 has changed everybody's world and I am immensely proud of how BT has responded to the challenges the Covid-19 crisis has presented. Our strong and resilient networks, both fixed and mobile, have proved critical to the continuing functioning of the UK economy, providing unrivalled connectivity and services for the nation.

"Of course, Covid-19 is affecting our business, but the full impact will only become clearer as the economic consequences unfold over the next 12 months. Due to Covid-19, BT is not providing guidance for 2020/21, at this time.

"BT has the best network infrastructure in the UK. We have the leading 4G network and are rapidly expanding our leadership position in 5G, that today covers over 80 towns and cities. We have the largest and most extensive fixed network and are leading the UK on the next generation Fibre-to-the-Premises (FTTP) network where we now pass 2.6 million premises. Today we are announcing a rapid acceleration of our FTTP build with a target of 20 million premises passed by the mid- to late-2020s, including a significant build in rural areas. After passing 1.3 million premises last year, we are aiming at over 2 million in 2020/21, and envisage a maximum build rate of 3 million premises per year. Our FTTP investment should deliver pre-tax nominal returns of between 10% to 12% and is based on a regulatory framework consistent with Ofcom's preferred policy direction and continued support for infrastructure investment and competition.

"The continued delivery of market leading customer experiences remains core to our success, with a focus on driving the take-up of converged product offerings such as Halo, our premium converged offering for homes and businesses. In the short period since launch, Halo now represents over 30% of our BT consumer broadband base.

"BT is delivering, but is also changing. BT needs to be leaner, simpler and more agile. Today we are announcing a radical modernisation and simplification programme that will use technology to create a better BT for the future. This 5-year initiative will re-engineer old and out of date processes, rationalise products, reduce re-work and switch off many legacy services. This next stage in the modernisation of BT will deliver gross annualised savings of £2 billion over the next 5 years.

"In order to deal with the potential consequences of Covid-19, allow us to invest in FTTP and 5G, and to fund the major 5-year modernisation programme, we have also taken the difficult decision to suspend the dividend until 2022 and re-base thereafter.

"These decisions, particularly on the dividend, network investment and transformation are key to underpinning BT's investment case; driving network strength, competitive strength and financial strength, providing more clarity to the market, and driving long-term value for shareholders. I am confident that these decisions position us really positively for the future."

Jan du Plessis, Chairman, commenting on the dividend, said

"Recognising the importance of dividends to our shareholders, the Board's decision in relation to the dividend has been exceptionally difficult. BT plays a key role in sustaining critical national infrastructure – as magnified by the Covid-19 crisis – and many stakeholders trust and rely on the connectivity we provide. BT also stands ready to make the biggest communications infrastructure investment in the UK in a generation – that includes building our full fibre network to 20m premises by the mid- to late-2020s. To maintain such trust, whilst creating capacity for value-enhancing investment and navigating the unprecedented uncertainties caused by Covid-19 without compromising our credit rating, the Board concluded that the prudent and proper decision was to suspend the 2019/20 final dividend and all dividends for 2020/21, and re-base future dividends to a more sustainable level. The Board believes that this decision is in the best long-term interests of shareholders.

"We expect to resume dividend payments in 2021/22, rebased to 7.7p per share. The Board expects to continue with a progressive dividend policy from this re-based level for future years."

Keeping the nation connected during the Covid-19 crisis:

- Our priority is protecting our people, in particular our frontline keyworkers who have continued to work to keep the nation connected
- Our networks are performing well, and comfortably within capacity, despite the change in demand patterns
- We have supported the national response to the crisis, including providing connectivity to the NHS Nightingale hospitals and are working closely with Government on a wide range of initiatives

Operational:

- FTTP rollout at c.32k premises passed per week; FTTP premises passed to date doubled in the year to 2.6m
- Divested Tikit and progressing disposals of selected domestic operations in Latin America and France
- 5G now live in 80 cities and large towns; investing significantly to more than double current footprint by March 2021 subject to the right conditions
- EE named best overall operator in RootMetrics' biannual awards
- Consumer fixed ARPC £38.1, down 2% year on year; postpaid mobile ARPC £20.4, down 2% year on year due to impact of regulation and continued trend towards SIM-only; RGUs per address 2.38
- Postpaid mobile churn improved to 1.1% quarter on quarter; fixed churn improved to 1.3% year on year due to improvements to customer experience and shift to fairer, predictable and competitive pricing strategy

Financial:

- Reported revenue £22,905m down 2%¹ mainly reflecting the impact of regulation, declines in legacy products, strategic reductions in low margin business and divestments
- Reported profit before tax £2,353m down year on year; includes charges of £95m as a result of Covid-19 mainly reflecting increased debtor provisions
- Adjusted² EBITDA £7,907m, down 3%¹, due to lower revenue and investment in customer experience, partly offset by cost savings from transformation programmes
- Net cash inflow from operating activities £6,271m, up 47%, due to lower pension contributions and one-off cash flows; normalised free cash flow² £2,011m, down 18%, primarily due to increased cash capital expenditure
- Capital expenditure £3,960m, up £193m excluding BDUK funding deferral, driven by network and customer investment
- Net debt² increased primarily due to implementation of IFRS 16, and net business cash outflows
- Given the uncertainty created by Covid-19 we will not be providing a financial outlook statement for 2020/21

Full year to 31 March	2020 (IFRS 16)	2019 (IAS 17)	2019 (IFRS 16 pro forma ²)	Change ¹
	£m	£m	£m	%
Reported measures				
Revenue	22,905	23,428		(2)
Profit before tax	2,353	2,666		n/m
Profit after tax	1,734	2,159		n/m
Basic earnings per share	17.5p	21.8p		(20)
Net cash inflow from operating activities	6,271	4,256		47
Full year dividend	—	15.4p		n/m
Capital expenditure	3,960	3,963		—
Adjusted measures				
Adjusted ² Revenue	22,824	23,459	23,459	(3)
Adjusted ² EBITDA	7,907	7,392	8,126	(3)
Adjusted ² basic earnings per share	23.5p	26.3p		(11)
Normalised free cash flow ²	2,011	2,440	2,440	(18)
Net debt ²	17,969	11,035		n/m

¹ Changes on prior year are presented on an IAS 17 basis where meaningful except for adjusted EBITDA, which is presented on an IFRS 16 pro forma basis

² See Glossary on page 3

n/m = IFRS 16 to IAS 17 comparison not meaningful

Customer-facing unit results for the full year to 31 March 2020

	Adjusted ² revenue			Adjusted ² EBITDA			Normalised free cash flow ²		
Full year to 31 March	2020 (IFRS 16) £m	2019 ³ (IFRS 16 pro forma) £m	Change %	2020 (IFRS 16) £m	2019 ³ (IFRS 16 pro forma) £m	Change %	2020 (IFRS 16) £m	2019 ³ (IFRS 16 pro forma) £m	Change %
Consumer	10,388	10,591	(2)	2,426	2,558	(5)	1,065	1,166	(9)
Enterprise	6,093	6,396	(5)	1,965	2,032	(3)	1,397	1,356	3
Global	4,361	4,735	(8)	634	604	5	255	235	9
Openreach	5,112	5,075	1	2,858	2,934	(3)	670	1,006	(33)
Other	1	3	n/m	24	(2)	n/m	(1,376)	(1,323)	(4)
Intra-group items	(3,131)	(3,341)	6	—	—	—	—	—	—
Total	22,824	23,459	(3)	7,907	8,126	(3)	2,011	2,440	(18)

Fourth quarter to 31 March									
Consumer	2,493	2,610	(4)	626	675	(7)			
Enterprise	1,543	1,592	(3)	507	516	(2)			
Global	1,081	1,201	(10)	175	176	(1)			
Openreach	1,295	1,271	2	719	725	(1)			
Other	1	(1)	n/m	(20)	(66)	n/m			
Intra-group items	(781)	(820)	5	—	—	—			
Total	5,632	5,853	(4)	2,007	2,026	(1)	1,011	703	44

Performance against 2019/20 outlook

	2019/20 outlook	2019/20 performance
Change in adjusted ² revenue	Down c.2%	Down 2.7%
Adjusted ² EBITDA	£7.9bn - £8.0bn	£7.9bn
Capital expenditure ⁴	£3.7bn - £3.9bn	£3.9bn
Normalised free cash flow ²	£1.9bn - £2.1bn	£2.0bn

¹ Changes on prior year are presented on an IAS 17 basis where meaningful except for adjusted EBITDA, which is presented on an IFRS 16 pro forma basis

² See Glossary below

³ Segmental results as reported in the Q4 2018/19 results release have been restated to reflect the change in the allocation of group overhead costs and the transfer of the Emergency Services Network contract from Consumer to Enterprise (see press release on 3 July 2019)

⁴ Excluding BDUK grant funding deferral

n/m = not meaningful

Glossary of alternative performance measure

Adjusted	Before specific items
EBITDA	Earnings before interest, tax, depreciation and amortisation
Adjusted EBITDA	EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense
Free cash flow	Net cash inflow from operating activities after net capital expenditure
Capital expenditure	Additions to property, plant and equipment and intangible assets in the period
Normalised free cash flow	Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items
Net debt	Loans and other borrowings and lease liabilities (both current and non-current), less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on the balance sheet. Currency denominated balances within net debt are translated into sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed.
IFRS 16 pro forma	On 1 April 2019, BT adopted IFRS 16 Leases, which replaced IAS 17 Leases. To aid comparability, pro forma financial information for 2018/19 has been presented to reflect how the results would have looked like if the accounting standard had been adopted last year. See page 12 for more details.
Specific items	Items that in management's judgement need to be disclosed separately by virtue of their size, nature or incidence. Further information is provided in note 6 on page 26.

We assess the performance of the group using a variety of alternative performance measures. The rationale for using adjusted measures is explained in note 1 on page 41. Results on an adjusted basis are presented before specific items. Reconciliations from the most directly comparable IFRS measures are in Additional Information on pages 41 to 43.

Overview of the full year and fourth quarter to 31 March 2020

Covid-19

As the year closed we have focused on supporting our people, customers and the national effort in responding to the Covid-19 crisis.

We are committed to the health and safety of our employees. All BT and Openreach colleagues who can perform their roles from home are doing so. Those colleagues who are critical to our ongoing operations but who can't perform their roles from home have been designated as Key Workers, as outlined by the Government, in recognition of the essential roles they play in keeping our customers and the country connected. These include network teams, field engineers, 999 operators and customer contact centre teams. We've increased cleaning in areas where these teams operate, and arranged for people to work at Government-recommended safe distances. We will continue to review our approach to reflect any changes in Government advice.

We have not furloughed any staff and, whilst ongoing transformation programmes will continue, we have committed, until at least the beginning of July 2020, that no BT, Openreach, EE or Plusnet colleague will lose their job as a direct result of the changing trading conditions arising as a result of Covid-19. We have also introduced a 1.5% pay increase for non-managerial staff with effect from July as part of our annual pay reviews.

We are doing all we can to be there for our customers and provide the best customer experience possible. Our stores are closed to comply with social distancing requirements, but our local experts are still here for our customers, who can now book an appointment to speak to one of our retail colleagues online or over the phone.

We have introduced multiple initiatives during the crisis such as removing broadband caps so every customer has unlimited data to use when working from home; mobile access to NHS online that doesn't use any data within customers' plans; calling 111 remains free for customers across the UK; and we're giving unlimited mobile data to all NHS workers for six months, alongside the 20% NHS discount that's already available.

We're offering extra help with bills and looking after our most vulnerable BT landline only customers by removing out of bundle charges for the most critical services, like UK landline and mobile calls, and placing a £5 cap on costs so they can make the essential calls they need to keep in touch.

We are supporting our enterprise customers in managing the greater number of people working from home. We have offered short term upgrades to their network capacity and enhanced Virtual Private Network (VPN) connectivity to support increased remote working. Extra conferencing and collaboration tools are available as well as call routing and forwarding solutions to divert calls to home phones or mobiles. We have several mechanisms in place to support payment flexibility for customers in financial difficulty as a result of the crisis, and small businesses needn't worry about being automatically disconnected from their broadband, voice and mobile services.

BT answers every emergency call made in the UK and we're managing unprecedented demand. During the crisis we've taken action to ensure we have around the clock capability to call on.

With help from our partners, and Guy's and St Thomas' and King's College Hospital, we have developed the Life Lines solution, a free service to provide patients in all Covid-19 intensive care units with video enabled tablets so that they can stay in touch with loved ones. We responded quickly to deliver solutions for The Nightingale field hospital at the London ExCel and we are providing connectivity and services to the temporary hospitals being established across the UK. We have also developed a secure remote access solution for doctors and healthcare workers so they can access patient records and information on the Health and Social Care Network.

Openreach has declared MBORC (Matters Beyond Our (Openreach's) Reasonable Control) for the first time ever at such scale and scope, giving it relief on its normal service level guarantees and reflecting that Openreach is unable to deliver to its normal high quality standards.

We're maintaining our network's performance and resilience as demand grows. Our network has been built to deal with peaks in customer demand that are significantly higher than we are currently seeing. We continue to analyse the impact that the demand for broadband and mobile is having on customers and those of other CPs who are wholesale customers of Openreach.

We now expect to deliver FTTP to 4.5 million premises by March 2021. Our expansion of our 5G network remains on track, however a number of our masts have been vandalised due to reckless conspiracy theories which are completely unfounded, untrue and ignore the very basic principles of science.

We have recognised £95m of Covid-19 impacts on various balance sheet items as a specific item. These primarily relate to an increase in our expected credit loss provisions against trade receivables and contract assets, mainly within our enterprise units.

We're taking short-term actions to mitigate the financial impacts of Covid-19. We have flexed down third-party resourcing from sub-contractors and outsource partners, leveraging our own workforce wherever possible; cancelled or delayed planned recruitment; launched a process to partner with our major suppliers to deliver significant and sustainable cost reductions along the supply chain; focused and rephased our marketing spend; and reduced discretionary spend on travel, training and external fees.

We continue to hold our sports rights on the balance sheet at their existing carrying amounts. The majority relate to the Premier League and UEFA coverage and we understand that the intention is for the 2019/20 season to be completed.

Differentiated customer experience

Our customers' overall perception of BT improved for the fifteenth successive quarter with Group NPS¹ increasing by 5.5 points when compared to the prior year baseline.

Service

In the latest available results, customer complaints to Ofcom were reduced by 41% for BT Consumer broadband on a year on year basis. During the year they fell below the industry average for the first time ever. Over the same period, complaints to Ofcom about EE mobile were reduced by 33%, and are the lowest rate per 100,000 customers of any UK mobile network operator

We now have over 500 dual-branded BT/EE stores supporting our intent to create the UK's most personal and local customer service.

Weather conditions in the second half of the year proved to be very challenging with the autumn months bringing some of the wettest on record, and extensive flooding following Storms Ciara and Dennis in the quarter. Total Openreach customer fault volumes were 1.1% higher in 2019/20 compared to last year. However, continued investment in fault volume reduction work for the copper access network meant a 3.4% reduction in volumes year on year. Throughout the quarter Openreach took steps to increase capacity to bring customers back into service as safely and quickly as possible. Copper and fibre on time repair across the year was 84%, in line with performance in 2018/19, despite the difficult weather conditions.

The level of missed appointments, where Openreach was at fault, was slightly higher in 2019/20, at 2.0%, compared to 1.8% last year. Flood related customer premises access issues was the main driver for this increase. Efforts to maintain service have been recognised in the best ever perception results for copper and fibre access and end customer satisfaction of Openreach engineers.

Openreach has achieved all of Ofcom's 42 quality of service levels for the year on voice and broadband services, including FTTC, despite the effects of challenging weather conditions in the second half of the year.

Digital

We continue to invest in digital solutions, with around 20% of all BT Consumer transactions processed through digital channels. My BT registrations are up by 39% to 4.4 million and MyEE registrations are up to 12.6 million, up 6% year on year. Over 80% of the Plusnet mobile base has installed the Plusnet mobile app in the 18 months since launch. Registrations for the BT Business app are up by three quarters to 110,000 when compared to the same point last year. In addition, we now have over 3.7 million customers using our Call Protect product, preventing almost a third of a billion unwanted calls since launch in January 2017.

Products

30% of the BT Consumer broadband base have subscribed to our converged BT Halo product plans since their introduction in October 2019. Halo offers the best connection and experience with unlimited data on mobile and broadband, access to 5G and inclusive Home Tech Expert support for consumers. In addition, BT mobile has extended the availability of 5G mobile access to all residential and business customers. Our converged product offering for business customers, 4G Assure, remains popular and accounts for the majority of new SME broadband sales.

We refreshed the range of full fibre (FTTP) ultrafast broadband plans available to BT Consumer customers in March. The 'gigabit' class top tier, Full Fibre 900, offers average download speeds of 900Mbps+. Completing the range are Full Fibre 500 and Full Fibre 100 variants offering average speeds of 500Mbps+ and 145Mbps+ respectively.

We relaunched the BT TV service in February, which incorporates all Sky channels and Now TV with our existing Netflix and Amazon Prime Video services. Customers have the flexibility to change channel packs on a month-to-month basis.

EE announced an exclusive partnership for the new BritBox video streaming service in March, giving customers on existing pay monthly mobile and tablet (4G and 5G) plans a free 6 month subscription. Any related BritBox data usage during this period is provided at no extra cost.

During the quarter BT became the first UK and European distribution partner for Google's new cloud-based online video gaming platform, Stadia. Customers taking out either BT's Superfast Fibre 2 or Ultrafast Fibre options can choose to receive a free Google Stadia Premiere Edition which includes a Stadia controller, Chromecast Ultra and three months access to Stadia Pro.

We are committed to upgrading 700,000 home and business customers to superfast broadband for no extra charge by late summer 2020.

In partnership with Transport for London, EE started a trial to offer 4G mobile network access along the Jubilee Line between Canning Town and Westminster stations with the ultimate aim to make 4G services available across the whole of the London Underground network by the mid-2020s.

In March, Enterprise announced the launch of a new managed SD-WAN solution for UK business customers, enabling secure, high-bandwidth connections across multiple sites using fixed and mobile networks.

¹ Group NPS measures Net Promoter Score in our retail business and Net Satisfaction in our wholesale business

Openreach formally launched SOGEA (Single Order Generic Ethernet Access) in April, a stand-alone broadband product that is an important enabler for switchover.

Best converged network

Mobile network

EE was named best overall operator in RootMetrics' biannual awards, ranking first in every category including speed and reliability.

Since launching 5G less than 12 months ago, we now have the largest network with 5G in more than 80 cities and large towns across the UK. We will continue to lead in 5G, investing significantly over the coming quarters to more than double our current 5G footprint by March 2021, assuming the right conditions are in place.

Fixed network

Openreach continues to expand its FTTP network to provide the next generation of services for its customers, supporting the Government's ambition of gigabit-capable broadband nationwide. Given progress with the current FTTP build, Openreach now plans to accelerate its FTTP build to 4.5 million premises passed by March 2021. Subject to the successful resolution of a number of critical enablers, BT will support the investment to reach 20 million premises by the mid- to late-2020s.

These critical enablers include extending the enablers across the whole of the UK, being able to sign acceptable deals with customers, agreeing the details of the fair bet, understanding how Government funding will be applied to rural areas, and getting Cumulo rates relief.

Openreach's FTTP network now reaches 2.6 million premises, and it built at an average run rate of c.32,000 premises passed per week in the fourth quarter, deploying to a home or business every 19 seconds.

Openreach extended its Fibre First programme to a further 84 locations across the UK, taking the total to 110 locations, where build will commence between now and March 2021. Openreach has also outlined plans to make FTTP available to 250,000 UK premises in 2020/21 across 227 market towns and villages, with building to commence by the end of the next financial year. This forms part of its previously stated 4 million target.

0.7 million fibre enabled¹ broadband net connections were completed in the quarter, and more than 2.4 million were completed for the full year. 14.6 million customers are now connected to fibre enabled products, and Openreach's superfast fibre broadband network now reaches over 28.4 million premises.

During the year Openreach was awarded two of three lots to provide superfast speeds to Scotland. The vast majority of the build will be FTTP.

Openreach made good progress in making Salisbury its first full fibre city. FTTP was made available to all premises Openreach was able to access, with plans in place to withdraw copper services commencing December 2020.

Simplified, lean and agile business

Our cost transformation programme announced in May 2018 is complete with an annual benefit of over £1,550m and an associated implementation cost of £670m. During the year there was a reduction of 5,000 roles, taking the total to 9,000 over the past 2 years.

The next phase of our transformation will focus on simplifying our product portfolio, simplifying and automating our customer journeys, moving to a modern, modular IT architecture, and migrating customers from our legacy networks to our modern FTTP and 5G networks. This will deliver annualised gross cost savings of £1 billion per annum by the end of March 2023, realised in broadly equal annual increments, increasing to £2 billion per annum by the end of March 2025. The savings will comprise reductions in both our total labour costs and spend with external suppliers. We expect around 80% of the savings will be realised in operating costs and the remainder in capital expenditure.

We anticipate that the one-off cost to achieve these savings will be £1.3 billion in total across the five years of the programme, of which £900m will be invested in the first three years, including around £400m this fiscal year.

During the quarter we announced the sale of Tikit, our global legal, accounting and professional services software business. The divestment aligns with our ongoing transformation programme and strategy of focusing on converged connectivity and services.

We also reached agreement for the sale of selected domestic telecommunication operations and infrastructure in 16 countries in Latin America. The transaction is subject to regulatory approval and is expected to complete during calendar year 2020.

We are currently in exclusive negotiations on the sale of our domestic telecommunication operations in France. The transaction is subject to consultations with works councils and regulatory approval, and completion is expected to take place during calendar year 2020.

¹ FTTP, FTTC and Gfast (including Single Order migrations)

Regulation

Covid-19 response

Ofcom has responded to the Covid-19 pandemic, noting that the priority for the industry is to maintain support for consumers and businesses and as such it will take a pragmatic approach to enforcement.

We are prioritising our regulatory requirements with our customers' best interests in mind. Ofcom has confirmed that it will take account of the unique circumstances when enforcing rules on subjects such as End of Contract Notifications, Automatic Compensation and the Broadband Speeds Code of Practice, where there is a need for flexibility in managing competing priorities.

The work we are doing for consumers has been received positively by Ofcom and we are briefing them regularly on our response to the situation whilst responding to ad hoc requests for support from customers, Ofcom, Government and the NHS.

In view of the unique circumstances that the Openreach operational teams are dealing with, contractual MBORC (Matters Beyond Our (Openreach's) Reasonable Control) has been declared on a national basis across Openreach's products. This position is under regular review, with Ofcom fully informed of developments.

In April, Ofcom published its updated annual work plan, with most deadlines moved back to take into account the impact of Covid-19 on the industry. It is still aiming to complete its plan of work for 2020/21, but acknowledges the need for flexibility and will therefore publish another update in September. From the beginning of June onwards, new publications and information requests will be issued in line with the updated plan of work.

Wholesale Fixed Telecoms Market Review 2021-2026

In January, Ofcom published a consultation on the Wholesale Fixed Telecoms Market Review (WFTMR), which sets out how it proposes to regulate Openreach services for the five years from 1 April 2021. The review marks a change from the previous cost-based regulation, with Ofcom pricing that's generally supportive of investment in FTTP and of Openreach's proposed approach to migrating customers from copper to fibre (to help minimise the cost of running two networks in parallel).

Ofcom postponed the deadline for consultation responses due to Covid-19 until 22 May 2020. We will be submitting our response to Ofcom's consultation shortly. Ofcom will consider the responses it receives and incorporate any changes to its proposals that it considers appropriate. In its revised annual plan Ofcom has confirmed it will publish its statement on the WFTMR in Q4 2020/21.

Broadband universal service obligation (USO)

In March, we launched the broadband USO which allows eligible customers in the UK to request a minimum 10Mbps service. Due to constraints presented by Covid-19 we will be sending communications to eligible customers over a longer period. We are working with Ofcom and DCMS to ensure compliance with the USO in these circumstances. In its revised annual plan Ofcom has confirmed it will publish a final statement on the cost recovery framework in Q1 2020/21.

Rural mobile network coverage

In March, DCMS announced an agreement with the four UK mobile network operators (MNOs) in respect of the Shared Rural Network (SRN). Under this programme, grant funding together with investment by MNOs will extend aggregate 4G geographic coverage to 95% of the UK and substantially fill in partial not spots (where at least one but not all operators serve). As part of the agreement we consented to a variation of our 1800 MHz spectrum licence to reflect the additional mobile coverage obligations that follow from the SRN.

In March, following the agreement of the SRN, Ofcom published details of how it will assess mobile companies' compliance with the coverage commitments in the SRN agreement.

Spectrum auction

In March, Ofcom issued its statement on the final rules for the upcoming auction of 700MHz and 3.6GHz spectrum in the UK. Ofcom has indicated that it is ready to award the licences and aims to ensure any external action which might delay the auction, including through legal challenges, are dealt with as quickly as possible. Ofcom expects the auction to take place in 2020/21.

Consumer fairness

Throughout the quarter we continued to adhere to the Ofcom Fairness for Customers Commitments that we signed up to in June 2019. We have continued to upgrade BT customers from copper to superfast broadband at no extra cost; we have capped BT broadband out-of-contract price increases for consumers; and for EE mobile handset consumers we are introducing a percentage discount 3 months after their contracts end. Prices will be reduced for disengaged consumers remaining on copper broadband, and for disengaged vulnerable broadband consumers.

We will formally report on our progress against the Fairness Commitments to Ofcom later this year. In many respects BT has gone further than other communications providers (CPs), and we have worked hard to meet Ofcom's expectations and address the Competition and Markets Authority's concerns around the "loyalty penalty". Actions taken by BT during the Covid-19 crisis further demonstrate our commitment to fairness.

Vulnerable customers

We support a regulatory framework which creates better outcomes for vulnerable customers, and continue to work with other CPs to identify best practice in this area. This has particularly come to the fore with Covid-19, and we have

been working with Ofcom and Government to ensure everything possible is being done to help all customers stay connected to essential services, especially those who are vulnerable.

Where Covid-19 has required us to put on hold certain regulatory obligations in respect of engineering and contact centre resource, we have worked with Ofcom to ensure that outcomes for consumer customers continue to be as fair as possible.

European Electronic Communications Code (EECC)

In March, we responded to Ofcom's consultation on implementing the end-user rights provisions of the EECC. The various initiatives are focused on making sure customers are able to make well-informed decisions and do not face any disincentives to switch. We note that Ofcom is discussing the implementation deadlines of the EECC with the Government and we expect these to be revised in light of Covid-19.

Other matters

Brexit

The UK left the EU on 31 January 2020 with a transition period running until 31 December 2020. We have plans in place to ensure that we're prepared for the final outcome of talks on the future UK/EU relationship, including the possibility of a disorderly exit from the transition period that could have a damaging impact on consumer and business confidence. Our contingency planning is focused on ensuring we can continue to provide uninterrupted service to our customers, including sufficient inventory to protect against potential import delays. We are also making the necessary changes to our contracts and processes so that we will continue to be able to transfer customer data to and from the EU.

American Depositary Receipt (ADR) programme

As previously announced, we terminated our ADR programme on 23 September 2019. The formal deadline for holders to surrender their ADRs to the depositary (J.P. Morgan) for cancellation and exchange for BT Group plc ordinary shares passed on 23 March 2020. Accordingly, J.P. Morgan have sold the remaining ADR rump of 46.7m shares via an accelerated book build. The proceeds of such sales (net of brokerage commission and other related expenses), together with any dividends will be held in trust for the pro rata benefit of relevant shareholders. Holders of outstanding ADRs must surrender their ADRs for cancellation in order to receive payment of the termination proceeds to which they are entitled.

Outlook for 2020/21

Given the uncertainty created by Covid-19 we will not be providing an outlook statement for 2020/21.

Covid-19 will have an impact on our business. The full impact on the group will depend on the duration of this unique crisis and how deeply it impacts the economy, with a range of potential outcomes too large to provide a meaningful quantification at this point.

This fiscal year and beyond we expect the primary trading impact in five areas:

- We are seeing lower revenue from our BT Sport propositions in Consumer, due to the impact of customer credits, pubs and clubs closures, and reduced advertising revenues. We will continue to offer bill credits while there isn't live sport.
- We expect an impact from sharply reduced business activity and rising insolvencies, specifically among the SME segment served by Enterprise and to a lesser extent Global.
- We are seeing an adverse impact on Openreach trading. While we anticipate lower churn, we expect significant reductions in the volume of broadband and Ethernet upgrades and provisioning, due to reduced business activity, including fewer new site builds, and restrictions on provisioning activity under current stay-at-home guidelines.
- Retail trading in Consumer and the volume end of Enterprise is being adversely impacted, with fewer sales and upgrades across fixed and mobile products, partly offset by lower churn. In addition, we are seeing lower mobile roaming volumes.
- We are seeing a reduction in spending and a more cautious approach from our multinational customers resulting in cancellations and delays to purchasing cycles, primarily impacting trading in Global.

Of these, we expect the vast majority of the financial impact will derive from lower revenue from the impacts on our BT Sport propositions, the SME segment and Openreach trading.

We will continue to evaluate the potential impacts as the situation develops further and hope to provide an outlook statement later in the year.

Dividend

To create capacity for BT's value-enhancing investment opportunities, including our strategic intent for an accelerated FTTP build and our extensive transformation and modernisation programme, coupled with the shorter term impact of Covid-19, the Board has decided that it is appropriate to suspend the final dividend for 2019/20 and all dividends for 2020/21. The Board expects to resume dividend payments in 2021/22 at 7.7 pence per share.

The Board expects to continue with a progressive dividend policy from this re-based level for future years. The Board continues to expect to declare two dividends per year with the interim dividend being fixed at 30% of the prior year's full year dividend. The Board believes that suspending and re-basing the dividend and then maintaining a progressive dividend policy is the right thing to do for the long-term future of BT and that the headroom generated by this decision is prudent given the Covid-19 pandemic, while the investments will create significant additional value for shareholders.

Principal risks and uncertainties

A summary of the Group's principal risks and uncertainties is provided in note 10.

Key operational metrics for the fourth quarter to 31 March 2020

Our key operational metrics are as follows:

Fourth quarter to 31 March	2020	2019
Consumer		
Average revenue per customer (ARPC) (£ per month)		
- Fixed	38.1	38.8
- Postpaid mobile	20.4	20.9
- Prepaid mobile	8.8	7.9
Monthly churn		
- Fixed	1.3%	1.4%
- Postpaid mobile	1.1%	1.1%
Fibre enabled share of broadband base		
- Superfast	79.7%	72.9%
- Ultrafast	2.4%	0.8%
Revenue generating units per address	2.38	2.37
Enterprise		
Number of products/customers ('000)		
- Voice lines	1,759	1,997
- VoIP seats ¹	842	650
- Retail broadband lines	738	762
- Wholesale broadband lines	727	748
- WAN circuits	85.5	82.9
- Ethernet circuits	53.0	50.3
- Private circuits ²	25.3	32.9
- Mobile customers	3,733	3,598
- MVNO customers	3,882	3,776
Call minutes (millions)		
- Retail ³	799	889
- Wholesale	756	884
Fibre enabled share of broadband base		
- Superfast	49.6%	45.9%
- Ultrafast	0.8%	0.3%
Rolling 12-month retail order intake (£m)	3,554	2,889
Rolling 12-month wholesale order intake (£m)	1,174	1,017
Global		
Rolling 12-month order intake (£m)	4,337	3,286
Openreach		
Network deployment ('000 premises passed)		
Superfast inc. ultrafast	28,422	27,479
- of which ultrafast Gfast	2,814	2,020
- of which ultrafast FTTP	2,575	1,247

¹ Restated following review: from Q3 2018/19 onwards, includes additional seats from products not previously reported in the total VoIP seats KPI

² 2018/19 comparative restated following review to exclude previously counted internal circuits

³ Additional Cloud Voice call minutes included from Q4 2018/19, reflecting a system change

Group results for the full year to 31 March 2020

Income statement

Reported revenue was £22,905m, down 2%, and adjusted¹ revenue was down 3% mainly reflecting the impact of regulation, declines in legacy products, strategic reductions of low margin business and divestments. This was partially offset by growth in new products and services and higher rental bases of fibre-enabled products and Ethernet.

Reported operating costs were £19,622m, down 2%, and adjusted¹ operating costs were down 2% mainly driven by savings from our ongoing transformation programmes, partially offset by increased business rates, investment in customer experience and increased salary costs in Openreach to support FTTP rollout and better service. Adjusted¹ EBITDA of £7,907m was down 3%².

Reported profit before tax was £2,353m and adjusted¹ profit before tax was £2,860m, impacted by the higher upfront interest expense associated with IFRS 16 lease liabilities recognised on 1 April 2019.

We have recognised £95m of Covid-19 impacts on various balance sheet items as a specific item. These primarily relate to an increase in our expected credit loss provisions against trade receivables and contract assets, mainly within our enterprise units.

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

Specific items resulted in a net charge after tax of £590m (2018/19: £452m). The main components are restructuring costs of £322m (2018/19: £386m), divestment related items of £199m (2018/19: £5m); interest expense on pensions of £145m (2018/19: £139m); £95m one-offs resulting from Covid-19; and a tax charge on specific items of £83m (2018/19: credit of £112m).

These charges were offset by the gain on disposal of BT Centre of £115m; release of regulatory provisions of £72m (2018/19: £27m charge); and payment of £87m including settlement interest of £5m from Ofcom relating to overpaid annual licence fees that were charged during the period 2015-2017.

Tax

The effective tax rate was 26.3% on reported profit and 18.7% on adjusted¹ profit.

Capital expenditure

Capital expenditure was £3,960m (2018/19: £3,963m). This includes grant funding deferral under the Building Digital UK (BDUK) programme. Excluding BDUK gainshare, capital expenditure was £3,943m (2018/19: £3,750m).

Network investment (excluding BDUK gainshare) was £2,053m³, up 4%³. This reflects continued investment in our Fibre Cities network build and the rollout of 5G. Other capital expenditure components were up 6%³ with £972m³ spent on customer-driven investments, £755m³ on systems and IT, and £163m³ spent on non-network infrastructure.

Free cash flow

Net cash inflow from operating activities was up £2,015m to £6,271m mainly driven by £750m lower deficit contributions to the BT Pension Scheme in the current year and significant one-off cash flows. Normalised free cash flow¹ was down £429m to £2,011m due to increased cash capital expenditure, lower EBITDA, deposit payments for UEFA club football rights and increased interest payments, partially offset by one-off cash flows. A reconciliation to our free cash flow is shown in Additional Information on page 42.

The net cash cost of specific items was £112m (2018/19: £598m). This includes restructuring payments of £350m (2018/19: £372m) and regulatory payments of £39m (2018/19: £170m), offset by proceeds on disposal of BT Centre of £210m (2018/19: £nil) and receipt of annual licence fee refund from Ofcom of £87m (2018/19: £nil).

Net debt and liquidity

Net debt¹ was £18.0bn at 31 March 2020, £6.9bn higher than at 31 March 2019 (£11.0bn), primarily reflecting lease liabilities recognised on transition to IFRS 16 on 1 April 2019. Excluding lease liabilities, net financial debt was £0.5bn higher than at 31 March 2019.

The increase in net financial debt was driven by £1.3bn of contributions to the BT Pension Scheme, £1.5bn dividend payments, £3.9bn net capital expenditure, £0.7bn payment of lease liabilities and £0.7bn net interest payments; partly offset by net cash inflow from operating activities (excluding pension contributions) of £7.5bn and net proceeds from disposals of subsidiaries, associates and joint ventures of £0.1bn.

At 31 March 2020 the group held cash and current investment balances of £6.6bn. The current portion of loans and other borrowings of £2.8bn include term debt of £1.3bn repayable during 2020/21. We issued bonds in September 2019, November 2019 and February 2020 totalling £2.8bn, including a £0.4bn hybrid bond; and in June 2019 and March 2020 repaid bonds totalling £1.1bn.

¹ See Glossary on page 3

² Measured against IFRS 16 pro forma comparative period in the prior year

³ Capital expenditure by spend type reported in previous quarters has been re-presented between categories to reflect an improved mapping process

Our £2.1bn facility with 14 syndicated banks (£150m each) remains undrawn at 31 March 2020. This facility was renewed in March 2020 and now matures in March 2025.

We are committed to our BBB+ medium-term rating target with a BBB floor, and to maintain our financial flexibility as we make long-term investments in our business.

Pensions (Note 7 to the condensed consolidated financial statements)

The IAS 19 pension position at 31 March 2020 was a deficit of £1.0bn net of tax (£1.1bn gross of tax), compared with £6.0bn net of tax (£7.2bn gross of tax) at 31 March 2019. The decrease in the gross deficit of £6.1bn since 31 March 2019 mainly reflects an increase in the real discount rate, deficit contributions paid over the period, and positive asset returns. However, interest rates are extremely volatile in the current markets and we estimate our IAS 19 deficit will have materially worsened since 31 March principally reflecting the subsequent fall in credit spreads.

Announcements on potential changes to the calculation of the Retail Price Index (RPI), and a consultation on the future of RPI launched in March 2020, have created uncertainty around future expectations of RPI and CPI and therefore the measurement of the pension liabilities at 31 March 2020. We estimate 60% of the impact of aligning RPI with CPIH from 2030 is reflected in the value of RPI-linked assets at 31 March 2020 and we have amended our long-term RPI and CPI assumptions accordingly. Additional developments could lead to further changes to our inflation assumptions and/or asset valuations at future reporting dates.

Under IAS 19, around £6bn of unquoted assets have been initially measured using the most recent valuations, adjusted for cash movements between the valuation date and 31 March 2020. As the latest asset valuations for these assets precede the negative impact of the Covid-19 pandemic on financial markets, we have applied an estimated adjustment by reference to market indices or estimated 31 March 2020 valuations provided by the portfolio investment managers. The overall effect of this adjustment has reduced the valuation of illiquid assets by £0.5bn, and is reflected in the IAS 19 position at 31 March 2020.

The next triennial funding valuation for the BT Pension Scheme is scheduled to take place as at 30 June 2020, and we are aiming to complete discussions in the first half of calendar year 2021. We note the Pensions Regulator is currently consulting on a new statutory funding regime. While any new rules are not currently due to take effect until late in 2021, the impact of the new regime will likely feature in upcoming discussions with the Trustee.

IFRS 16 pro forma restated historical financial information

On 1 April 2019 BT adopted IFRS 16 Leases, the new accounting standard for leases, recognising right-of-use assets and lease liabilities for arrangements that meet the IFRS 16 lease definition. EBITDA has increased because operating lease expense has been replaced by interest expense and depreciation. The standard was adopted on a modified retrospective basis, without restating comparative periods.

Unaudited pro forma results for the year ended 31 March 2019 have been prepared and published, showing selected 2018/19 comparatives under IFRS 16. These are available online:

<https://www.btplc.com/Sharesandperformance/Financialreportingandnews/Quarterlyresults/index.htm>

BT does not warrant the accuracy, completeness or validity of the information, figures or calculations in the unaudited pro forma documents and shall not be liable in any way for loss or damage arising out of the use of the information, or any errors or omissions in its content.

Operating review

Consumer

	Fourth quarter to 31 March				Full year to 31 March			
	2020	2019 ³	Change		2020	2019 ³	Change	
	(IFRS 16)	(IFRS 16 pro forma ⁴)			(IFRS 16)	(IFRS 16 pro forma except where noted ⁴)		
	£m	£m	£m	%	£m	£m	£m	%
Revenue ¹	2,493	2,610	(117)	(4)	10,388	10,591	(203)	(2)
Operating costs ¹	1,867	1,935	(68)	(4)	7,962	8,033	(71)	(1)
EBITDA ²	626	675	(49)	(7)	2,426	2,558	(132)	(5)
Depreciation & amortisation					1,278	1,030 ⁴	n/m	n/m
Operating profit ¹					1,148	1,301 ⁴	n/m	n/m
Capital expenditure					948	944	4	—
Normalised free cash flow					1,065	1,166	(101)	(9)

Revenue¹ for the year declined due to known regulatory headwinds from international calling and mobile spend caps, and a declining base of voice only customers. Revenue from TV and sport continued to grow during the year.

EBITDA² for the year declined due to the impact of regulation, a declining base of voice only customers and investments in the fairness agenda. During the year, EBITDA² from TV and sport continued to grow. EBITDA² in both years included certain one off credits.

Going into the next financial year, we are seeing lower revenue from our BT Sport propositions, due to the impact of customer credits, pubs and clubs closures, and reduced advertising revenues. We will continue to offer bill credits while there isn't live sport. Retail trading is being adversely impacted with fewer sales and upgrades across fixed and mobile products, partly offset by lower churn. In addition, we are seeing lower mobile roaming volumes.

EBITDA after specific items includes a £9m charge in relation to the expected impact of the Covid-19 outbreak on the recoverability of receivable balances held at 31 March 2020.

The movement in depreciation and amortisation was primarily due to the adoption of IFRS 16⁴.

Capital expenditure was largely flat primarily due to lower core network investment in the second half of the year. Normalised free cash flow was down 9% mainly due to lower EBITDA².

Year on year fixed churn has improved to 1.3% due to improvements to customer experience and our new annual CPI pricing strategy. During the year, BT Consumer broadband complaints have been reduced to below industry average for the first time. Quarter on quarter mobile churn has improved to 1.1%.

Halo II has been launched offering the best connection and experience with unlimited data at home and on the go, access to 5G, and inclusive Home Tech Expert support. 30% of the BT broadband customer base have now signed up to the converged BT Halo product.

EE continues with its roll out of 5G taking the total to 80 cities and large towns UK-wide, more than any other operator. We will be investing significantly over the coming quarters to more than double our current 5G footprint by March 2021, assuming the right conditions are in place. The number of 5G subscribers continues to grow in line with expectations.

With the February relaunch of BT TV adding Sky and Now TV, the EE partnership with Britbox video streaming announced in March and in broadband the partnership with Google's new gaming platform Stadia, we continue to deliver against our more-for-more strategy.

¹ Adjusted (being before specific items). See glossary on page 3

² Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 3

³ All prior year comparatives as reported in the Q4 2018/19 results release have been restated for the changes detailed on footnote 3 on page 3

⁴ Following BT's adoption of IFRS 16 on 1 April 2019, prior year comparatives have been re-presented where possible to reflect what the results would have looked like if the accounting standard had been adopted last year (see press release 3 July 2019). Depreciation & amortisation and operating profit have not been re-presented and are shown under IAS 17 (n/m = not meaningful)

Enterprise

	Fourth quarter to 31 March				Full year to 31 March			
	2020	2019 ³	Change		2020	2019 ³	Change	
	(IFRS 16)	(IFRS 16 pro forma ⁴)			(IFRS 16)	(IFRS 16 pro forma except where noted ⁴)		
	£m	£m	£m	%	£m	£m	£m	%
Revenue ¹	1,543	1,592	(49)	(3)	6,093	6,396	(303)	(5)
Operating costs ¹	1,036	1,076	(40)	(4)	4,128	4,364	(236)	(5)
EBITDA ²	507	516	(9)	(2)	1,965	2,032	(67)	(3)
Depreciation & amortisation					719	690 ⁴	n/m	n/m
Operating profit ¹					1,246	1,220 ⁴	n/m	n/m
Capital expenditure					501	551	(50)	(9)
Normalised free cash flow					1,397	1,356	41	3

We continue to experience challenging market trends, with declines in traditional calls and lines where we have a relatively high market share, limited growth and pricing pressures in the broadband market and tough mobile competition.

Demand for our converged propositions has been positive and the majority of new broadband sales to SME customers continue to be for our premium 4G Assure products. Take-up of 5G is in line with expectations, and we've also launched a new managed service wide area network (SD-WAN) solution for UK businesses, enabling secure, high-bandwidth connections across multiple sites using fixed and mobile networks.

Revenue¹ decreased 5% in the year due to continued declines in traditional fixed voice usage, with total fixed voice revenue down £149m, and the impact of divestments. Excluding the impact of divestments, revenue¹ decreased 2%. These declines were partly offset by growth in wholesale mobile and WAN & Ethernet.

Operating costs¹ were down 5% in the year, helped by lower labour costs from our restructuring programmes. EBITDA² decreased 3%, with our lower cost base more than offset by the reduction in revenue. Excluding the impact of divestments, EBITDA² was down 1%.

Consistent with our expectations for the year, our EBITDA² benefitted by around £15m in the fourth quarter following a customer agreement. This was partly offset by a small trading impact from Covid-19 which we recognised in our adjusted earnings. In addition, as a result of the expected increased insolvency and bad debt risk due to the virus, we have recognised a £51m impairment charge for expected credit losses against trade receivables and other balance sheet items. This charge has been recognised as a specific item.

In the next financial year we expect an impact from sharply reduced business activity and rising insolvencies, specifically among the SME segment. We are also seeing an adverse impact on mobile roaming volumes and fewer sales and upgrades across fixed and mobile products, partly offset by lower churn.

We're continuing to provide a vital role for our business and public sector customers, and we have mobilised at speed to help our customers work from home and collaborate, as well as supporting critical infrastructure projects.

Depreciation and amortisation and operating profit movements primarily reflect the impact of IFRS 16⁴. Capital expenditure decreased 9% and normalised free cash flow increased 3%, with the upfront cash payment of c.£100m received as part of our deal with Cellnex in Q1.

Despite the competitive market, we saw a strong order intake for the year. The Wholesale order intake increased 15% to £1.2bn and the Retail order intake increased 23% to £3.6bn, helped by a major contract extension within the public sector.

During the quarter we divested Tikit Ltd, which together with the sale of BT Fleet Solutions in Q2 enables us to focus on delivering the best fixed and mobile networks in the UK. From Q1 2020/21 our remaining Ventures businesses have been reorganised to reflect this renewed focus.

The sale of BT Fleet Solutions and Tikit Ltd, together with the transfer of the remaining Ventures units into our other operating activities, will simplify our Enterprise business to serve our customers better. We will publish a pro forma set of external KPIs during Q1 2020/21 and will no longer report Ventures separately.

¹ Adjusted (being before specific items). See glossary on page 3

² Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 3

³ All prior year comparatives as reported in the Q4 2018/19 results release have been restated for the changes detailed on footnote 3 on page 3

⁴ Following BT's adoption of IFRS 16 on 1 April 2019, prior year comparatives have been re-presented where possible to reflect what the results would have looked like if the accounting standard had been adopted last year (see press release 3 July 2019). Depreciation & amortisation and operating profit have not been re-presented and are shown under IAS 17 (n/m = not meaningful)

Global

	Fourth quarter to 31 March				Full year to 31 March			
	2020 (IFRS 16)	2019 ³ (IFRS 16 pro forma ⁴)	Change		2020 (IFRS 16)	2019 ³ (IFRS 16 pro forma except where noted ⁴)	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue ¹	1,081	1,201	(120)	(10)	4,361	4,735	(374)	(8)
Operating costs ¹	906	1,025	(119)	(12)	3,727	4,131	(404)	(10)
EBITDA ²	175	176	(1)	(1)	634	604	30	5
Depreciation & amortisation					479	378 ⁴	n/m	n/m
Operating profit ¹					155	66 ⁴	n/m	n/m
Capital expenditure					223	245	(22)	(9)
Normalised free cash flow					255	235	20	9

Revenue¹ for the year was down 8% reflecting our strategic decisions to reduce low margin business, divestments and legacy portfolio declines, partially offset by growth in Security and a £13m positive impact from foreign exchange movements.

EBITDA² for the year was up £30m as lower revenue was more than offset by a reduction in operating costs¹ reflecting ongoing transformation and certain one-offs.

Depreciation and amortisation and operating profit¹ movements primarily reflect the impact of IFRS 16⁴.

Capital expenditure was down 9% reflecting ongoing rationalisation and our strategy to become an asset light business. Normalised free cash flow improved by £20m to an inflow of £255m, reflecting higher EBITDA² and lower capital expenditure offset by adverse working capital.

Order intake in the quarter was £1.3bn, up 32% benefitting from a number of large renewals including Lloyds Banking Group but also reflecting increased new business wins. Order intake for the year was £4.3bn, also up 32% year on year. We expect a slow down in order intake during 2020/21 due to a reduction in expected renewals, combined with the impact of Covid-19 on growth opportunities.

Covid-19 has not materially impacted our 2019/20 trading results, although additional loss provisions of around £35m were taken against trade receivables and contracts at 31 March 2020 primarily in relation to SME and regional enterprise customers where the insolvency risk is expected to be more pronounced. These provisions were recognised through specific items and are therefore not reflected in the above results which are on an adjusted basis.

Looking forward, we are seeing a reduction in spending and a more cautious approach from our multinational customers resulting in cancellations and delays to purchasing cycles impacting trading.

During the quarter we launched our Security Advisory Services practice, marking another step in the ongoing expansion of our cyber security capabilities. The practice will offer strategic security guidance and solutions to organisations across the globe.

During the quarter we reached an agreement for the sale of selected domestic operations and infrastructure in 16 countries in Latin America. The transaction is subject to regulatory approval and is expected to be completed during calendar year 2020.

We also entered exclusive talks to sell our domestic operations in France. The deal is subject to consultations with works councils. This process will adhere to any additional French Government guidance issued as a result of the Covid-19 pandemic. It will then be subject to regulatory approval, with completion expected to take place during calendar year 2020.

¹ Adjusted (being before specific items). See glossary on page 3

² Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 3

³ All prior year comparatives as reported in the Q4 2018/19 results release have been restated for the changes detailed on footnote 3 on page 3

⁴ Following BT's adoption of IFRS 16 on 1 April 2019, prior year comparatives have been re-presented where possible to reflect what the results would have looked like if the accounting standard had been adopted last year (see press release 3 July 2019). Depreciation & amortisation and operating profit have not been re-presented and are shown under IAS 17 (n/m = not meaningful)

	Fourth quarter to 31 March				Full year to 31 March			
	2020 (IFRS 16)	2019 ³ (IFRS 16 pro forma ⁴)	Change		2020 (IFRS 16)	2019 ³ (IFRS 16 pro forma except where noted ⁵)	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue ¹	1,295	1,271	24	2	5,112	5,075	37	1
Operating costs ¹	576	546	30	5	2,254	2,141	113	5
EBITDA ²	719	725	(6)	(1)	2,858	2,934	(76)	(3)
Depreciation & amortisation					1,712	1,398 ⁴	n/m	n/m
Operating profit ¹					1,146	1,346 ⁴	n/m	n/m
Capital expenditure					2,108	2,081	27	1
Normalised free cash flow					670	1,006	(336)	(33)

Revenue¹ growth was driven by performance in the second half of the year; with growth in higher rental bases in fibre-enabled products⁵ (driven by commercial offers), up 20%, and Ethernet, up 11%. This was partially offset by price reductions (both the impact of Openreach's commercial offer of fibre volume discounts, and regulated price reductions), and higher service level guarantee payments due to implementation of auto-compensation.

Operating costs¹ were 5% higher primarily driven by higher business rates and higher salary costs as Openreach invested in more colleagues to support FTTP rollout and better service, and pay inflation. These drivers were partly offset by efficiency savings and certain one off items. EBITDA² was down with revenue growth offset by higher operating costs.

Depreciation and amortisation and operating profit movements primarily reflect the impact of IFRS16⁴.

Excluding BDUK gainshare, capital expenditure was up £223m, or 12%, driven by investments in the network (predominately fibre enabled infrastructure) partially offset by efficiency savings.

Normalised free cash flow was down 33% due to higher cash capital expenditure and costs, and timing of working capital.

Looking forward, Openreach is seeing an adverse impact on trading as a result of Covid-19. While Openreach anticipate lower churn, significant reductions in the volume of broadband and ethernet upgrades and provisioning are expected, due to reduced business activity, including fewer new site builds, and restrictions on provisioning activity under current stay-at-home guidelines. Openreach is prioritising service and maintenance to support vulnerable customers.

¹ Adjusted (being before specific items). See glossary on page 3

² Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 3

³ All prior year comparatives as reported in the Q4 2018/19 results release have been restated for the changes detailed on footnote 3 on page 3

⁴ Following BT's adoption of IFRS 16 on 1 April 2019, prior year comparatives have been re-presented where possible to reflect what the results would have looked like if the accounting standard had been adopted last year (see press release 3 July 2019). Depreciation & amortisation and operating profit have not been re-presented and are shown under IAS 17 (n/m = not meaningful)

⁵ FTTP, FTTC and Gfast (including Single Order migrations)

Condensed consolidated financial statements

Group income statement

For the full year to 31 March 2020 (IFRS 16 basis)

	Note	Before specific items ('Adjusted')	Specific items (note 6)	Total (Reported)
		£m	£m	£m
Revenue	3,4	22,824	81	22,905
Operating costs	5	(19,213)	(409)	(19,622)
Operating profit		3,611	(328)	3,283
Finance expense		(796)	(145)	(941)
Finance income		39	5	44
Net finance expense		(757)	(140)	(897)
Share of post tax profit of associates and joint ventures		6	(39)	(33)
Profit before tax		2,860	(507)	2,353
Tax		(536)	(83)	(619)
Profit for the period		2,324	(590)	1,734
Earnings per share				
- basic		23.5p	(6.0)p	17.5p
- diluted		23.3p	(5.9)p	17.4p

For the full year to 31 March 2019 (IAS 17 basis)

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

Group statement of comprehensive income

	Full year to 31 March	
	2020 (IFRS 16)	2019 (IAS 17)
	£m	£m
Profit for the period	1,734	2,159
Other comprehensive income (loss)		
Items that will not be reclassified to the income statement:		
Remeasurements of the net pension obligation	4,853	(2,102)
Tax on pension remeasurements	(808)	384
Items that have been or may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	40	64
Fair value movements on assets at fair value through other comprehensive income	(5)	3
Movements in relation to cash flow hedges:		
– net fair value gains (losses)	854	176
– recognised in income and expense	(382)	(18)
Tax on components of other comprehensive income that have been or may be reclassified	(84)	(41)
Other comprehensive profit (loss) for the period, net of tax	4,468	(1,534)
Total comprehensive income for the period	6,202	625

Group balance sheet

	31 March 2020 (IFRS 16)	31 March 2019 (IAS 17)
	£m	£m
Non-current assets		
Intangible assets	13,889	14,385
Property, plant and equipment	18,474	17,835
Right-of-use assets ¹	5,391	—
Derivative financial instruments	2,229	1,481
Investments	20	54
Associates and joint ventures	12	47
Trade and other receivables	481	445
Contract assets	279	249
Deferred tax assets	300	1,347
	41,075	35,843
Current assets		
Programme rights	310	310
Inventories	300	369
Trade and other receivables	2,704	3,222
Contract assets	1,442	1,353
Assets held for sale	268	89
Current tax receivable	67	110
Derivative financial instruments	260	111
Investments	5,092	3,214
Cash and cash equivalents ²	1,549	1,666
	11,992	10,444
Current liabilities		
Loans and other borrowings ²	2,842	2,100
Derivative financial instruments	46	48
Trade and other payables	5,794	5,790
Contract liabilities	972	1,225
Lease liabilities ¹	812	—
Liabilities held for sale	211	—
Current tax liabilities	21	15
Provisions	288	424
	10,986	9,602
Total assets less current liabilities	42,081	36,685
Non-current liabilities		
Loans and other borrowings	16,492	14,776
Derivative financial instruments	966	892
Contract liabilities	179	200
Lease liabilities ¹	5,748	—
Retirement benefit obligations	1,140	7,182
Other payables	754	1,479
Deferred tax liabilities	1,608	1,407
Provisions	431	582
	27,318	26,518
Equity		
Share capital	499	499
Share premium	1,051	1,051
Own shares	(237)	(167)
Merger reserve	2,572	4,147
Other reserves	1,119	718
Retained earnings	9,759	3,919
Total equity	14,763	10,167
	42,081	36,685

¹ Right-of-use assets and lease liabilities arise following adoption of IFRS 16 on 1 April 2019. See note 1 to the condensed consolidated financial statements

² Bank overdrafts of £183m at 31 March 2020 (31 March 2019: £72m) are included within loans and other borrowings

Group statement of changes in equity

For the full year to 31 March 2020 (IFRS 16 basis)

	Share Capital	Share Premium	Own Shares	Merger Reserve	Other Reserves	Retained earnings	Total Equity
	£m	£m	£m	£m	£m	£m	£m
At 31 March 2019	499	1,051	(167)	4,147	718	3,919	10,167
IFRS 16 opening balance adjustment ¹	—	—	—	—	—	(87)	(87)
Tax on IFRS 16 opening balance adjustment ¹	—	—	—	—	—	16	16
At 1 April 2019	499	1,051	(167)	4,147	718	3,848	10,096
Profit for the period	—	—	—	—	—	1,734	1,734
Other comprehensive income (loss) before tax	—	—	—	—	889	4,853	5,742
Tax on other comprehensive (loss) income	—	—	—	—	(84)	(808)	(892)
Transferred to the income statement	—	—	—	—	(382)	—	(382)
Comprehensive income	—	—	—	—	423	5,779	6,202
Transfer to realised profit	—	—	—	(1,575)	(22)	1,597	—
Dividends to shareholders	—	—	—	—	—	(1,521)	(1,521)
Share-based payments	—	—	—	—	—	72	72
Tax on share-based payments	—	—	—	—	—	—	—
Net buyback of own shares	—	—	(70)	—	—	(14)	(84)
Unclaimed dividends over 10 years	—	—	—	—	—	2	2
Other Movements	—	—	—	—	—	(4)	(4)
At 1 April 2020	499	1,051	(237)	2,572	1,119	9,759	14,763

¹ This reflects the opening balance sheet adjustment for adoption of IFRS 16 on 1 April 2019. See notes 1 and 2 to the condensed consolidated financial statements

For the full year to 31 March 2019 (IAS 17 basis)

At 1 April 2018	499	1,051	(186)	6,647	534	2,426	10,971
Profit for the period	—	—	—	—	—	2,159	2,159
Other comprehensive income (loss) before tax	—	—	—	—	243	(2,102)	(1,859)
Tax on other comprehensive (loss) income	—	—	—	—	(41)	384	343
Transferred to the income statement	—	—	—	—	(18)	—	(18)
Comprehensive income	—	—	—	—	184	441	625
Transfer to realised profit	—	—	—	(2,500)	—	2,500	—
Dividends to shareholders	—	—	—	—	—	(1,503)	(1,503)
Share-based payments	—	—	—	—	—	67	67
Tax on share-based payments	—	—	—	—	—	—	—
Net buyback of own shares	—	—	19	—	—	(23)	(4)
Unclaimed dividends over 10 years	—	—	—	—	—	14	14
Other movements	—	—	—	—	—	(3)	(3)
At 31 March 2019	499	1,051	(167)	4,147	718	3,919	10,167

Group cash flow statement

For the full year to 31 March

	Full year to 31 March	
	2020 (IFRS 16) £m	2019 (IAS 17) £m
Cash flow from operating activities		
Profit before taxation	2,353	2,666
Share of post tax loss (profit) of associates and joint ventures	33	(1)
Net finance expense	897	756
Operating profit	3,283	3,421
Other non-cash charges	209	(112)
Loss on disposal of business	36	5
Profit on disposal of property, plant and equipment	(115)	—
Depreciation and amortisation	4,274	3,546
(Increase) decrease in inventories	69	(138)
Decrease in programme rights	33	49
(Increase) decrease in trade and other receivables	163	(58)
(Increase) decrease in contract assets	(119)	15
Increase in trade and other payables	144	57
Decrease in contract liabilities	(236)	(72)
Decrease in other liabilities ²	(1,182)	(1,934)
Decrease in provisions	(78)	(92)
Cash generated from operations	6,481	4,687
Income taxes paid	(210)	(431)
Net cash inflow (outflow) from operating activities	6,271	4,256
Cash flow from investing activities		
Interest received	30	23
Dividends received from associates and joint ventures	1	—
Proceeds on disposal of subsidiaries, associates and joint ventures	60	23
Acquisition of associates and joint ventures	(8)	(9)
Proceeds on disposal of current financial assets	12,000	12,887
Purchases of current financial assets	(13,877)	(13,088)
Proceeds on disposal of non-current asset investments	33	1
Proceeds on disposal of property, plant and equipment	216	41
Purchases of property, plant and equipment and software	(4,105)	(3,678)
Net cash inflow (outflow) from investing activities	(5,650)	(3,800)
Cash flow from financing activities		
Equity dividends paid	(1,520)	(1,504)
Interest paid ¹	(736)	(531)
Repayment of borrowings ³	(1,111)	(1,423)
Proceeds from bank loans and bonds	2,843	3,972
Payment of lease liabilities ¹	(651)	—
Cash flows from derivatives related to net debt	452	124
Proceeds from issue of own shares	2	5
Repurchase of ordinary share capital	(86)	(9)
Net cash inflow (outflow) from financing activities	(807)	634
Net increase (decrease) in cash and cash equivalents	(186)	1,090
Opening cash and cash equivalents	1,594	499
Net (decrease) increase in cash and cash equivalents	(186)	1,090
Effect of exchange rate changes	1	5
Closing cash and cash equivalents⁴	1,409	1,594

¹ Payment of lease liabilities relates to the principal element of lease liabilities recognised following adoption of IFRS 16 on 1 April 2019. Interest on lease liabilities is included within interest paid. See note 1 to the condensed consolidated financial statements

² Includes pension deficit payments of £1,274m for the year to 31 March 2020 (2018/19: £2,024m)

³ Repayment of borrowings includes the impact of hedging

⁴ Net of bank overdrafts of £183m at 31 March 2020 (31 March 2019: £72m)

Notes to the condensed consolidated financial statements

1. Basis of preparation and accounting policies

These condensed consolidated financial statements ('the financial statements') comprise the financial results of BT Group plc for the years to 31 March 2020 and 2019 together with the balance sheet at 31 March 2020 and 2019. Results for the year to 31 March 2020 have been extracted from the 31 March 2020 audited consolidated financial statements which have been approved by the Board of Directors. These have not yet been delivered to the Registrar of Companies but are expected to be published on 21 May 2020.

Except for the impact of IFRS 16 as described below, the financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2019 and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

The financial information set out above does not constitute the company's statutory accounts for the years to 31 March 2020 or 2019 but is derived from those accounts. The auditor has reported on those accounts; their report (i) was unqualified, (ii) did not include a reference to any matters to which the auditor 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 2020 or 31 March 2019. Statutory accounts for the year to 31 March 2019 were approved by the Board of Directors on 8 May 2019, published on 23 May 2019 and have been delivered to the Registrar of Companies.

New and amended accounting standards effective during the year

IFRS 16 Leases is effective for BT Group plc from 1 April 2019.

Background

IFRS 16 replaces IAS 17 'Leases' and related interpretations. The standard requires lessees to recognise right-of-use assets and lease liabilities for all leases meeting the lease definition set out by the standard unless certain exemptions are available. Accounting for lessors is largely unchanged.

Arrangements previously disclosed as operating lease commitments at 31 March 2019 have been recognised on the balance sheet. The key driver is the group's portfolio of leased land and buildings, the majority of which were previously recognised off balance sheet following a sale and operating leaseback transaction in 2001. Cell and switch site leases represent another material element, due to the long lease terms associated with these arrangements. Lease liabilities have also been recognised in respect of certain arrangements that were previously accounted for as service contracts because they did not meet the IAS 17 lease definition. These predominantly relate to dark fibre and data centre capacity.

Transition

The group adopted IFRS 16 on a modified retrospective basis. On transition, lease liabilities were recognised by discounting remaining payments payable under lease arrangements using an appropriate incremental borrowing rate. Right-of-use assets were recognised equivalent to the corresponding lease liabilities, adjusted for pre-existing prepaid lease payments, accrued lease expenses, and related onerous lease and decommissioning provisions.

The cumulative effect of initially applying the standard has been recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, i.e. the date of initial application. Prior year comparatives have not been restated for the effect of IFRS 16 and continue to be reported under IAS 17.

Practical expedients and exemptions

The group has elected to make use of the following practical expedients and exemptions available under IFRS 16:

- where appropriate, onerous lease provisions in existence at the date of initial adoption have been derecognised and applied against the corresponding right-of-use assets as a proxy for impairment
- initial direct costs have been excluded when measuring the right-of-use assets recognised on initial adoption of the standard
- hindsight has been used in assessing the lease term on initial adoption of the standard
- low-value leases and short-term leases have been excluded from the IFRS 16 accounting model, i.e. they will be accounted for in the same manner as operating leases previously were under IAS 17
- intangible assets such as software licences continue to be accounted for under IAS 38 'Intangible Assets', regardless of whether the arrangement would otherwise meet the IFRS 16 lease definition
- where practicable, and by class of underlying asset, arrangements containing both lease components and non-lease components will be accounted for as though they comprise a single lease component.

Financial impact

BT as lessee

In the prior year Annual Report, we estimated that bringing operating lease commitments onto the balance sheet on transition at 1 April 2019 would result in recognition of lease liabilities of between £5.6bn and £6.6bn. The actual liabilities recognised were £6.1bn (£6.3bn including pre-existing finance leases). When measuring these liabilities, lease payments were discounted using the group's incremental borrowing rate. The weighted-average rate applied was 2.2%.

The corresponding right-of-use assets recognised were £5.2bn. The difference to lease liabilities predominantly relates to accruals for rent inflation associated with operating leases which were previously classified as trade and other payables, but which have been reclassified to the corresponding right-of-use assets on transition to IFRS 16.

The reconciliation of operating lease commitments disclosed at 31 March 2019 to lease liabilities recognised at 1 April 2019 is as follows:

	£m
Operating lease commitments disclosed as at 31 March 2019¹	6,619
Arrangements not considered to be a lease under IAS 17 & IFRIC 4	74
Adjustments as a result of different treatment of extension & termination options	437
Short-term & low value leases recognised as an expense on a straight-line basis	(8)
Effect of discounting under the group's incremental borrowing rate	(901)
Other ²	(158)
Additional lease liabilities recognised as a result of IFRS 16	6,063
Existing finance leases	206
Total lease liabilities recognised as at 1 April 2019	6,269

¹ BT Group plc Annual Report 2019, note 30 (page 171)

² Other primarily represents leases between BT Group plc and MBNL, of which BT's share is eliminated for consolidation purposes, but which had been shown gross in operating lease commitments disclosed as at 31 March 2019

BT as lessor

Lessor accounting is substantially unchanged under IFRS 16 and adoption of the standard has not had a material impact on the accounting for arrangements previously identified as leases. The revised lease definition introduced by IFRS 16 has however required us to evaluate whether there are any arrangements that are now in scope of the standard and should therefore be accounted for as leases. The areas requiring the greatest judgement concern arrangements to provide external communications providers (CPs) with use of the group's fixed-line telecommunications infrastructure. We have concluded that arrangements that provide CPs with the exclusive use of the underlying infrastructure generally contain leases. This primarily includes "last mile" connections used by Openreach to provide CPs with connectivity to their customers' premises, along with other fibre products such as Ethernet. It also includes wholesale fixed network access arrangements sold by Enterprise.

The accounting for ongoing rentals is unchanged under IFRS 16, however upfront connections fees are now deferred over the lease term rather than the contractual period. For Openreach's last mile arrangements, this is longer than the current contractual deferral period as it also covers the duration that we are 'reasonably certain' that CPs will retain the use of the line beyond the initial contractual period. This has been assessed as 6 months for all last mile arrangements except for FTTP, which is 12 months. Additional deferred income has been recognised in respect of active arrangements at the transition date, and a corresponding adjustment has been made to retained earnings. This has not had a material impact on the balance sheet or income statement. For Openreach's other fibre products and Enterprise's wholesale fixed network access arrangements, the introduction of IFRS 16 has not had a material impact on the accounting for connection fees.

Note 2 sets out the adjustments to the opening balance sheet resulting from initial application of IFRS 16.

Disclosures

We have presented right-of-use assets and the current and non-current elements of lease liabilities on the face of the consolidated balance sheet. To support the additional disclosure requirements introduced by IFRS 16, the financial statements for the year ended 31 March 2020 will include a dedicated leasing note.

The cash flow statement has been revised to present the element of cash lease payments attributable to lease interest expense and the element attributable to repayment of lease liabilities within cash flows from financing activities.

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

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

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

2. Restatement of prior period financial statements and opening balance adjustments

Revision of segment results

From 1 April 2019 we changed the allocation of group overhead costs and transferred the Emergency Services Network contract from Consumer to Enterprise. The comparative results in the operating results notes have been revised to be presented on a consistent basis. See notes 3 and 4.

IFRS 16 opening balance adjustments

The transition method we have chosen in applying IFRS 16 means we do not restate comparative information for the impact of the standard. We have instead adjusted the 1 April 2019 balance sheet to reflect the impact on opening retained earnings. Set out below is the impact on the balance sheet and statement of changes in equity of the transition to IFRS 16.

Group balance sheet

	At 31 March 2019	IFRS 16 opening balance adjustment	At 1 April 2019
	£m	£m	£m
Non-current assets			
Right-of-use assets	—	5,155	5,155
Intangible assets	14,385	(70)	14,315
Property, plant and equipment	17,835	(34)	17,801
Deferred tax assets	1,347	2	1,349
Other non-current assets	2,276	—	2,276
	35,843	5,053	40,896
Current assets			
Trade and other receivables	3,222	(50)	3,172
Other current assets	7,222	—	7,222
	10,444	(50)	10,394
Current liabilities			
Lease liabilities	—	725	725
Loans and other borrowings	2,100	(16)	2,084
Trade and other payables	5,790	91	5,881
Contract liabilities	1,225	(34)	1,191
Provisions	424	(17)	407
Other current liabilities	63	—	63
	9,602	749	10,351
Total assets less current liabilities	36,685	4,254	40,939
Non-current liabilities			
Lease liabilities	—	5,544	5,544
Loans and other borrowings	14,776	(190)	14,586
Contract liabilities	200	(12)	188
Other payables	1,479	(825)	654
Provisions	582	(192)	390
Other non-current liabilities	9,481	—	9,481
	26,518	4,325	30,843
Equity			
Retained earnings	3,919	(71)	3,848
All other reserves	6,248	—	6,248
Total equity	10,167	(71)	10,096
	36,685	4,254	40,939

Group statement of changes in equity

	Share Capital	Share Premium	Own Shares	Merger Reserve	Other Reserves	Retained Earnings	Total Equity
	£m	£m	£m	£m	£m	£m	£m
At 31 March 2019	499	1,051	(167)	4,147	718	3,919	10,167
IFRS 16 opening balance adjustment	—	—	—	—	—	(87)	(87)
Tax on IFRS 16 opening balance adjustment	—	—	—	—	—	16	16
At 1 April 2019	499	1,051	(167)	4,147	718	3,848	10,096

3. Operating results – by customer facing unit

	External Revenue	Internal revenue	Group revenue	Adjusted EBITDA ¹	Operating profit
Full year to 31 March 2020 (IFRS 16)	£m	£m	£m	£m	£m
Consumer	10,286	102	10,388	2,426	1,148
Enterprise	5,817	276	6,093	1,965	1,246
Global	4,361	—	4,361	634	155
Openreach	2,359	2,753	5,112	2,858	1,146
Other	1	—	1	24	(84)
Intra-group items	—	(3,131)	(3,131)	—	—
Total adjusted²	22,824	—	22,824	7,907	3,611
Specific items (note 6)			81		(328)
Total			22,905		3,283

Full year to 31 March 2019 (IAS 17) (restated)³

Consumer	10,484	107	10,591	2,331	1,301
Enterprise	6,037	359	6,396	1,910	1,220
Global	4,735	—	4,735	444	66
Openreach	2,200	2,875	5,075	2,744	1,346
Other	3	—	3	(37)	(87)
Intra-group items	—	(3,341)	(3,341)	—	—
Total adjusted²	23,459	—	23,459	7,392	3,846
Specific items (note 6)			(31)		(425)
Total			23,428		3,421

¹ For the reconciliation of adjusted EBITDA see additional information on page 41

² See Glossary on page 3

³ 2019 results have been restated to reflect the change in the allocation of group overhead costs and the transfer of the Emergency Services Network contract from Consumer to Enterprise

4. Operating results – by type of revenue

Full year to 31 March 2020	Consumer	Enterprise	Global	Openreach	Other	Total
	£m	£m	£m	£m	£m	£m
ICT and managed networks	—	2,207	2,199	—	—	4,406
Fixed access subscription revenue	4,443	2,007	352	2,293	—	9,095
Mobile subscription revenue	3,807	1,199	84	—	—	5,090
Equipment and other services	2,036	404	1,726	66	1	4,233
Total adjusted¹ revenue	10,286	5,817	4,361	2,359	1	22,824
Specific items (note 6)						81
Total revenue						22,905

Full year to 31 March 2019	Consumer ²	Enterprise ²	Global	Openreach	Other	Total
	£m	£m	£m	£m	£m	£m
ICT and managed networks	—	2,236	2,613	—	—	4,849
Fixed access subscription revenue	4,564	2,181	362	2,135	—	9,242
Mobile subscription revenue	3,866	1,277	130	—	—	5,273
Equipment and other services	2,054	343	1,630	65	3	4,095
Total adjusted¹ revenue	10,484	6,037	4,735	2,200	3	23,459
Specific items (note 6)						(31)
Total revenue						23,428

¹ See Glossary on page 3

² 2019 results have been restated to reflect the transfer of the Emergency Services Network contract from Consumer to Enterprise

5. Operating costs

	Full year to 31 March	
	2020 (IFRS 16 ¹) £m	2019 (IAS 17 ¹) £m
Direct labour costs	5,312	5,365
Indirect labour costs	1,028	939
Leaver costs	15	17
Total labour costs	6,355	6,321
Capitalised labour	(1,577)	(1,506)
Net labour costs	4,778	4,815
Product costs and sales commissions	4,440	4,464
Payments to telecommunications operators	1,749	2,059
Property and energy costs	1,004	1,325
Network operating and IT costs	898	1,026
Programme rights charges	870	841
Other operating costs	1,178	1,537
Operating costs before depreciation, amortisation and specific items	14,917	16,067
Depreciation and amortisation ²	4,296	3,546
Total operating costs before specific items	19,213	19,613
Specific items (Note 6)	409	394
Total operating costs	19,622	20,007

¹ Following adoption of IFRS 16 on 1 April 2019, operating lease charges previously included within operating costs have been replaced with depreciation on right-of-use assets and interest expense on lease liabilities. See note 1

² Excludes £22m reversal of impairment on right-of-use assets presented as a specific item which relate to assets impaired on adoption of IFRS 16.

6. Specific items

The group separately identifies and discloses those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence (termed 'specific items'). Specific items are used to derive the adjusted results as presented in the accompanying consolidated income statement. Adjusted results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reporting trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, retrospective regulatory matters, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. We have also included the impacts of Covid-19 on various balance sheet items as at 31 March 2020 as specific. The impact of Covid-19 on underlying trading is recognised in our adjusted results and not as a specific item.

	Full year to 31 March	
	2020	2019
	£m	£m
Specific revenue		
Retrospective regulatory matters	(81)	31
Specific revenue	(81)	31
Specific operating costs		
Restructuring charges	322	386
Pension equalisation costs	—	26
Retrospective regulatory matters	9	(4)
Italian business investigation	2	(55)
Property rationalisation	(131)	36
Provisions for claims	(5)	—
Divestment related items	199	5
Spectrum annual licence fee refund	(82)	—
Covid-19	95	—
Specific operating costs	409	394
Specific operating loss	328	425
Interest expense on retirement benefit obligation	145	139
Interest on Spectrum annual licence fee refund	(5)	—
Associates and joint ventures	39	—
Net specific items charge before tax	507	564
Tax charge (credit) on specific items	83	(112)
Net specific items charge after tax	590	452

Retrospective regulatory matters

We have recognised a net credit of £72m (2018/19: charge of £27m) in relation to regulatory matters. This reflects the settlement of various matters. Of this, £81m (credit) is recognised in revenue and £9m (charge) in operating costs.

Restructuring charges

During the year we incurred charges of £322m (2018/19: £386m), primarily relating to leaver costs. These costs reflect projects within our group-wide cost transformation programme. Of this £8m (2018/19: £29m) relates to the completion of our EE integration activities.

Pension equalisation costs

During 2018/19 we recognised a charge of £26m in relation to the high court requirement to equalise pension benefits between men and women due to guaranteed minimum pension (GMP).

Italian business investigation

During the year we have recognised £2m costs relating to the historical investigation in our Italian business (2018/19: a credit of £55m).

Property rationalisation

We have recognised a net credit of £131m (2018/19: charge of £36m) relating to rationalisation of our property portfolio under our Better Workplace Programme including the gain on sale of BT Centre of £115m.

Provisions for claims

We have recognised a credit of £5m (2018/19: £nil) in relation to release of provisions for claims created through specific items in 2012/13 which have now been fully settled.

Divestment related items

We have recognised losses on disposal totalling £36m (2018/19: £5m) relating to the completed divestments of BT Fleet Solutions and Tikit, and £36m of costs relating to ongoing divestment projects.

During the year we entered into agreements to sell our domestic operations in France, our domestic operations in Spain and selected domestic operations and infrastructure in 16 countries in Latin America. These divestments are expected to complete in financial year 2020/21. We have classified the assets and liabilities of these operations as held for sale at the lower of their carrying amount and fair value less costs to sell. This has resulted in an impairment charge of £127m relating to the France and Latin America divestments, which has been treated as a specific item.

Our domestic operations in Spain are expected to be sold for a profit and therefore no impairment has been recognised on classification as held for sale. Costs related to our divestment programme are also included as specific.

Spectrum annual licence fee refund

In May 2019 we received a payment of £87m from Ofcom, including settlement interest of £5m, relating to overpaid fees that were charged during the period 2015-2017 under the previous 2015 fees regulation that was quashed by the Court of Appeal in 2017. We did not recognise this receipt until Q4. Ofcom obtained permission to appeal the judgment to the Court of Appeal and in February 2020 the Court of Appeal ruled in our favour. Ofcom have informed us that they are not planning to pursue an appeal to the Supreme Court and we have therefore released our £87m provision and recognised this in the income statement as a specific item.

Covid-19

During the year we recognised one-off charges of £95m relating to the impact of Covid-19 on various balance sheet items as at 31 March 2020. This comprises an £88m increase in our expected credit loss provisions for receivables due from customers and contract assets, and £7m contract loss provisions in respect of revenue contracts that are expected to become loss-making as a result of Covid-19 impacts.

Should we recover the amounts owed, for which we have provided, this recovery would be reversed back through the income statement as a specific item.

Interest expense on retirement benefit obligation

During the year we incurred £145m (2018/19: £139m) of interest costs in relation to our defined benefit pension obligations.

Associates and joint ventures

Following renegotiation of a contract, an amount of £39m (2018/19: £nil) owed by an associate has been determined to be irrecoverable. The resulting impairment has been recognised as a specific item.

Tax on specific items

A net tax charge of £83m (2018/19: credit of £112m) was recognised in relation to specific items. During the period, legislation was enacted to maintain the UK corporation tax rate at 19%. Accordingly the group has re-measured its deferred tax balances which has resulted in a charge of £156m.

7. Pensions

	31 March 2020	31 March 2019
	£bn	£bn
IAS 19 liabilities – BTPS	(53.0)	(58.9)
Assets – BTPS	52.2	52.2
Other schemes	(0.3)	(0.5)
Total IAS 19 deficit, gross of tax	(1.1)	(7.2)
Total IAS 19 deficit, net of tax	(1.0)	(6.0)
Discount rate (nominal)	2.45 %	2.35 %
Discount rate (real)	(0.15)%	(0.87)%
RPI inflation	2.60 %	3.25 %
CPI inflation	0.9% below RPI until 31 March 2030 and 0.5% below RPI thereafter	1.1% below RPI until 31 March 2023 and 1.0% below RPI thereafter

Under IAS 19, around £6bn of unquoted assets have been initially measured using the most recent valuations, adjusted for cash movements between the valuation date and 31 March 2020. As the latest asset valuations for these assets precede the negative impact of the Covid-19 pandemic on financial markets, we have applied an estimated adjustment by reference to market indices or estimated 31 March 2020 valuations provided by the portfolio investment managers. The overall effect of this adjustment has reduced the valuation of illiquid assets by £0.5bn, and is reflected in the IAS 19 position at 31 March 2020.

8. Share capital

During the year 8.6m shares (2018/19: 9.1m) at a total cost of £22m (2018/19: £28m), calculated at a weighted average cost per share, were transferred from own shares (comprising Treasury shares and shares held under the BT Group Employee Share Ownership Trust (the Trust)) to satisfy obligations under all-employee and executive share plans. Own shares of £86m (2018/19: £9m) were purchased during the year. £80m of this relates to 40.7m BT Group plc shares that were purchased from Atlas Services Belgium, S.A., a subsidiary of Orange, and will continue to offset the dilutive effect of employee share schemes; and £6m shares were purchased by the Trust.

9. Contingent liabilities

Covid-19

Contract losses

We have recognised provisions for contracts we expect to become loss making as a result of Covid-19. We have also identified other contracts that we may become onerous as a result of Covid-19 but which do not meet the criteria for recognition of provisions, for example because the probability of a net outflow is not considered sufficiently probable.

Programme rights

At the reporting date no unrecognised programme rights commitments were affected by cancellations or postponements arising from Covid-19 and did not meet the criteria for disclosure as contingent liabilities.

Legal and regulatory proceedings

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

Italian Business

US securities class action complaints: The Plaintiffs filed a fourth amended complaint in August 2019. We filed a motion to dismiss this complaint in October 2019, and briefs on that motion were completed in December 2019. On 24 April 2020, the US Federal Court Judge granted our motion and dismissed, with prejudice, all claims against BT and the named individual defendants. The Plaintiffs have 30 days in which to file any appeal.

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

Following a Request for Indictment from the Milan Public Prosecutor, BT Italia and the 23 named Defendants are attending preliminary hearings to determine whether or not they should be committed to trial. The first two hearings took place on 9 and 16 December 2019. Further hearings that were scheduled for February and March 2020 have been adjourned until at least May 2020 due to the effect of the Covid-19 pandemic in Italy.

Brazilian tax claims

The Brazilian state tax authorities have made tax demands on the exchange of goods and services (ICMS) and regulatory assessments (FUST/FUNTEL) against certain Brazilian subsidiaries. These are indirect taxes imposed on the provision of telecommunications services in Brazil. The state tax and regulatory authorities are seeking to impose ICMS and FUST/FUNTEL on revenue earned on activities that the company does not consider as being part of the provision of telecommunications services, such as equipment rental and managed services. The judicial process is likely to take many years.

We have disputed the basis on which ICMS and FUST/FUNTEL are imposed and, in the case of ICMS, have challenged the rate which the tax authorities are seeking to apply.

Currently we have 33 ICMS cases with an updated potential value of £147m. This is the assessed amount for all cases spanning the period from 1998 to 2015 (plus one outlier case for the period 2013 to 2016 in the state of Minas Gerais). An ICMS assessment worth approximately £25m was cancelled by the Administrative Court in Brasilia in January 2020.

There are currently 62 FUST/FUNTEL cases in dispute with a known overall liability of £18m.

During the quarter BT signed an agreement to sell BT Latam Inc. and its subsidiaries to CIH Telecommunications Americas LLC (CIH). When the sale is completed (anticipated to be during the 2020 calendar year), the entities liable for the major part of the lawsuits, administrative proceedings and/or assessments related to ICMS, FUST and FUNTEL (the IFF Matters) will no longer be part of BT Group plc and therefore primary liability for those matters will cease to be for BT Group plc to cover.

The current value of cases accruing to the retained business is around £6m for FUST/FUNTEL and £14m for ICMS. Other than these BT Group retains no material direct exposures.

Phones 4U

Since 2015 the administrators of Phones 4U Limited have made allegations that EE and other mobile network operators colluded to procure Phones 4U's insolvency. Legal proceedings for an unquantified amount were issued in December 2018 by the administrators and in April 2019 we submitted our defence to this claim. We continue to dispute these allegations vigorously.

Regulatory matters

In respect of regulatory risks, the group provides for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. Estimates are used in assessing the likely value of the regulatory risk. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

Northern Ireland Public Sector Shared Network contract

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

Other regulatory matters

In the ordinary course of business, we are periodically notified of regulatory matters. We hold provisions reflecting management's estimates of regulatory risks across a range of issues, including price and service issues. The precise outcome of each matter depends on whether it becomes an active issue, and the extent to which negotiation or regulatory decisions will result in financial settlement.

10. Principal risks and uncertainties (extracted from the BT Group plc Annual Report 2020)

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

The principal risks draw upon the priority risks recorded in each of the customer-facing units and corporate units and the ongoing input from our senior leaders and respective oversight committees. The principal risks are reviewed by the Group Risk Panel, a forum comprised of senior representation from across the business, before being approved by the Executive Committee and Board.

Each principal risk is assigned an Executive Committee owner who is responsible for monitoring the exposure and nature of the risk, deciding how it should be managed and taking necessary action to achieve the desired target level.

Oversight of the individual principal risks is carried out via:

- Detailed reviews into each risk at Executive Committee, Audit & Risk Committee and Board meetings. Detailed reviews involve the Executive Committee owner providing an overview of the risk, relevant developments, how we are currently managing it and areas for improvement. There is also a summary of related assurance results that inform how effectively the risk is being managed.
- Collective review of the risks on a quarterly basis at the Group Risk Panel and every six months at the Executive Committee and annually by the Board.

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

Our principal risks and uncertainties

COVID-19	Customer experience
Covid-19 pandemic	Service interruption
STRATEGIC RISKS	Colleague engagement
Competition	FINANCIAL RISKS
Political risk	Pension scheme
Communications industry regulation	Financial risk
OPERATIONAL RISKS	COMPLIANCE RISKS
Cyber security	Health, safety & wellbeing
Supply chain	Significant control failure
Change management	Privacy and data protection
Major contracts	Ethical culture

Covid-19

The Covid-19 pandemic is having, and will continue to have, an impact across our entire risk landscape. We have incorporated Covid-19 commentary into each Principal risk and have included a separate Covid-19 risk which gives an overview of the related uncertainties, potential impacts on the Group and our responses.

Key

Link to strategy: 1: Differentiated customer experience 2: Best converged network 3: Simplified, lean and agile business	Link to business model: F: Financial strength P: Our people C: Our customer base N: Networks and physical assets B: Our brands R: Retail footprint I: Innovation S: Suppliers and partners
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Link to KPIs:

1: Brand NPS	7: Adjusted EBITDA
2: Total Openreach FTTB connections	8: Normalised free cash flow
3: Total 5G connections	9: Organic EBITDA margin
4: % reduction in CO2 emissions intensity	10: Reported capital expenditure
5: Cumulative number of people reached to help improve their digital skills	11: Organic ROCE
6: Reported revenue	

Movement

Trend versus prior year indicates our perception of pre-mitigation risk:

↑	Increasing/worsening
↓	Lessening/improving
↔	At a similar level

Covid-19 pandemic	Link to strategy: 1, 2, 3 Link to business model: F, P, C, N, B, R, I and S Link to Group KPIs: 1, 2, 3, 5, 6, 7, 8, 11	Movement: New risk
Risk description: Covid-19 is impacting our colleagues, operations, suppliers and customers, with the extent dependent on factors including, but not limited to, length of UK and international lockdowns, levels of employee absence, virus recurrence, insolvency rates, unemployment levels, nature and extent of any government interventions, severity of economic effects and the speed and nature of the recovery.		
How this could impact our strategy or business model: - Adverse impacts on sales activity and demand, including reduced roaming and continued suspension of sport; impacts are likely to be partially offset by reduced churn and increasing use of connectivity products. - Disruption to our ability to deliver products and services to customers in the event of supply shortages and/or widespread loss of key employee resource, with adverse impacts on customer volumes and experience. - Prolonged economic downturn could materially increase our pension deficit and associated contributions. - Material bad debts if a significant number of our SME and large corporate customers experience financial distress or insolvency. - Adverse impacts on our cash position and ability to fund investment projects and ongoing operations.		
Examples of how we manage this risk: - An Executive Committee Command group meet regularly to identify emerging exposures and review our ability to manage them, defining and agreeing actions as required. The group is supported by an operational working group, and equivalent command groups in each CFU/CU. - Introduction of various measures to protect the health and safety of our colleagues, ensuring continuity of critical services, and our customers; measures are continually evaluated and adjusted to reflect World Health Organisation, Public Health England, European Centre for Disease Prevention and Control and UK Government guidelines. - Response planning to manage any prolonged unavailability of key resources in our network and field engineering teams, maintaining existing network resilience levels. - Close dialogue with our critical suppliers, with sufficient inventories held to deal with anticipated scenarios. - Provision of flexible arrangements to vulnerable households and businesses at risk of harm and/or financial distress to ensure they remain connected.		
Focus areas for 2020/21: - Continued modelling of Covid-19 scenarios to identify and evaluate financial impacts, with an assessment of potential liquidity mitigation options. - Conduct risk assessments for each CFU to identify potential strategic, operational, regulatory and colleague related exposures. - Define 2020/21 assurance activities. - Review our Covid-19 response for lessons-learned, implementing identified opportunities to strengthen our crisis management capability.		

Competition	Link to strategy: 1, 2, 3 Link to business model: F, N, B Links to Group KPIs: 1, 2, 3, 6, 7, 8, 9, 11	Movement: ⇄
Risk description: - Failure to respond effectively to intensifying competition and technology developments, and develop product propositions in line with changing market dynamics and expectations. - Potential challenges include emergence of competitors enabled by disruptive technologies, reduced market differentiation, unanticipated changes in market structures and boundaries (M&A), government restrictions on vendor choices and changes in regulation or customer behaviours.		
How this could impact our strategy or business model: - Reduction in our market share, revenue and/or profit could impact our ability to invest in growing and increasing the value of the business. - Significant economic decline in specific industries could impact the Group's ability to continue to attract and retain customers in that industry (e.g. retail). - New technology developments could lead to accelerated shifts that affect our current propositions, an increase in investment requirements and/or a deterioration in our competitive position.		
Examples of how we manage this risk: - Delivering a differentiated customer experience. - Focusing on relevant product development. - Investing in securing network leadership. - Expanding into adjacent or new markets in pursuit of revenue and profit growth. - Phasing out legacy services and technologies. - Monitoring technology developments and competitor activity.		
Focus areas for 2020/21: - Deliver on key programmes that enhance customer experience, network leadership and transformation. - Ensure that we are meeting the KPIs that underpin our Strategy. - Identify and focus on the right type and mix of products.		

Political risk	Link to strategy: 1, 2 Link to business model: F, C, N Links to Group KPIs: 2, 3, 4, 8	Movement: ⇄
Risk description: - Perceived issues in deployment and connectivity of broadband and mobile coverage could escalate into larger political campaigns and regulatory intervention. - Failure to manage Covid-19 related challenges around network resilience, colleague and customer support, and data sharing (e.g. government data requests) could create political pressure on the company.		
How this could impact our strategy or business model: - Potential to undermine future strategy and investor confidence. - Our Universal Service Obligations ('USO') and Shared Rural Network ('SRN') commitments, and wider ambitions around network rollout, may be impacted by a prolonged Covid-19 lockdown and associated civil engineering restrictions beyond our control; the current impact is too early to determine, but may be mitigated by any relaxation of delivery expectations by government and/or Ofcom.		
Examples of how we manage this risk: - Building partnerships with government to address key priorities (e.g. full fibre investment, USO, SRN, supply chain security, online regulation and consumer fairness). - Working with business organisations including CBI, techUK and Chatham House to ensure alignment on key industry issues that matter to BT (e.g. post-Brexit policy positions). - Proactive approach with representatives from across the political spectrum on areas such as climate change, smart cities, and innovation. - Close, regular, direct involvement with all relevant strands of the government response to Covid-19 to provide the necessary support to government, colleagues and customers.		
Focus areas for 2020/21: - Fulfil USO and SRN commitments, providing greater connectivity to underserved parts of the UK. - Continued dialogue with government and other industry players on protecting consumers online, ensuring any interventions are fair and proportionate. - Further assess the practical and logistical impact of the Covid-19 related 'lockdown' on our network and coverage commitments to government and Ofcom, including impact on pushing for FTTP fibre enablers.		

Communications industry regulation	Link to strategy: 2, 3 Link to business model: F, C, N Links to Group KPIs: 1, 2, 3, 6, 7	Movement: ⇄
Risk description: Failure to comply with existing regulations and/or material regulatory change could impact the way we operate and compete in terms of our pricing, the standards we must meet and the services we provide.		

How this could impact our strategy or business model: - A lack of supportive or disruptive regulation would impact our ability to invest at pace and scale in ultrafast networks and converged connectivity, and the flexibility to innovate whilst doing so. - An inflexible approach to regulation during the Covid-19 pandemic could stretch the delivery capability of our colleagues at a time when they're focused on maintaining critical services and meeting customers' needs.
Examples of how we manage this risk: - Encouraging clear, predictable and proportionate regulation - Building stakeholder trust through consistent, collaborative and straightforward engagement. - Anticipating and embedding new regulatory rules and fostering a compliance culture. - Enhancing organisational agility to respond to fast-changing competitive and regulatory environment. - Continued focus on our Fairness Commitments, with regular Covid-19 stakeholder briefings.
Focus areas for 2020/21: - Engage with Ofcom on sector competitive dynamics, regulatory implications and deadline expectations. - Support pro-investment changes to the regulatory framework for fixed access regulation for 2021-26. - Support a clear customer migration strategy for the 2025 Public Switch Telephone Network (PSTN) closure. - Assess any substantive updates to Ofcom 20/21 annual plan and review our regulatory priorities accordingly. - Work with Ofcom as its Customer Fairness Framework evolves to ensure any interventions are proportionate and enhance the customer experience, prioritising support to customers during the Covid-19 pandemic. - Develop our position, accounting for Covid-19 delays, on the future regulatory model for digital platforms. - Assess Covid-19 impacts on the format and/or timescale of the upcoming spectrum auction.

Operational risks

Cyber security	Link to strategy: 1, 2 Link to business model: F, P, C, N, B Links to Group KPIs: 1, 6, 7, 8	Movement: ⇄
Risk description: - Cyber security risks could arise from colleagues inside BT or from external sources, with any failure to effectively manage these exposures presenting a material threat to our reputation as a leader in cyber security. - External adversaries, including hackers, criminals, terrorists and/or nation states, could attempt to disrupt service availability through the use of hacking tools, phishing scams and disruptive malware. - Covid-19 related work from home requirements could introduce additional security vulnerabilities, with any sickness-related absence of key employees potentially impacting our ability to defend against cyber-attacks.		
How this could impact our strategy or business model: - Potential financial loss, long-term reputational damage, loss of market share, contract terminations, regulatory sanctions and fines. - A cyber-attack could disrupt our business or lead to data being compromised at a time when communications are vital to the global response to Covid-19.		
Examples of how we manage this risk: - Adopting an intelligence-led, risk-based response to cyber threats, underpinned by robust business continuity plans that mitigate the absence of key employees (e.g. geographically dispersed operations). - Liaising with governments and other companies on emerging cyber threats. - Monitoring and logging our networks and systems to rapidly detect and respond to threats to service availability. - Testing our defences using our own ethical hacking teams and externally conducted assessments to identify and remediate vulnerabilities. - Raising security awareness and promoting good security hygiene among our colleagues through campaigns, training and phishing tests.		
Focus areas for 2020/21: - Sharing intelligence and keeping pace with evolving threats. - Continued investment in our defences. - Maintaining cyber hygiene. - Protecting BT and its customers in responding to the pandemic.		

Supply chain	Link to strategy: 2, 3 Link to business model: F, B, S Links to Group KPIs: 7, 8, 9, 10, 11	Movement: ↑
Risk description: - A failure in the supplier selection and/or in-life management process. - Restrictions in our ability to engage with perceived high-risk vendors following the UK Governments Telecoms Supply Chain Review. - Disruptions to supply continuity where suppliers are materially impacted by Covid-19.		

How this could impact our strategy or business model: - Selecting the wrong supplier for our requirements and/or over-dependence on certain suppliers could result in poor commercial terms, with a detrimental impact on our strategic, market and competitive position. - Failing to effectively manage suppliers and sub-suppliers could result in business disruption, regulatory fines and/or brand damage, through, for example, the failure of suppliers to meet key regulatory obligations such as GDPR or Human Rights.
Examples of how we manage this risk: - Clear definition of our operational and business requirements, against which suppliers are assessed. - Due diligence checks at selection for all third parties, covering adverse media, financial health and bribery and corruption, along with other compliance checks tailored to the goods/services being procured. - Regular in-life supplier due-diligence, heightened in response to Covid-19, and monitoring of operational performance and compliance across key risks areas (e.g. information security, data privacy, bribery and corruption, human rights, health and safety, business continuity, financial insolvency and location). - Providing commercial flexibility to suppliers impacted by Covid-19 (e.g. relaxed SLAs and accelerated payments) and establishing alternative sources of supply in key areas to promote supply continuity.
Focus areas for 2020/21: - Launching a new digital source to contract platform to deliver global standardisation in our supplier selection process. - Assessing digital capabilities that will enhance our in-life risk management capability. - Developing responses to external factors that could generate significant supply chain risk including GDPR non-compliance, Brexit, Huawei ban, cyber security risk and, more recently, Covid-19.

Change management	Link to strategy: 1, 2, 3 Link to business model: F, P, C Links to Group KPIs: 1, 7, 8, 9, 10, 11	Movement: ↑
Risk description: - We are moving into the next phase of our transformation programme that will transform our customers' and colleagues' experience through the simplification of our products, processes, IT systems, and networks. - Our next phase of transformation requires a new set of capabilities and enablers; in order to stay competitive we must redefine our approach to change management to focus on removing obstacles to improve BT's efficiency and productivity. - We are currently managing the operational impacts Covid-19 is having on our transformation (e.g. resource availability, remote working etc).		
How this could impact our strategy or business model: - Failure to realise the benefits of our transformation and manage the impacts of Covid-19 could negatively impact customer experience and our operational efficiency, as well as our ability to make future investments. - Covid-19 is delaying our ability in some parts of the business to immediately realise the benefits of transformation.		
Examples of how we manage this risk: - Establishing a clear transformation management structure, underpinned by agile delivery principles, which assigns ownership for major transformation activities with the leaders of the business. - Monitoring performance in each of the operational areas of our plan using measures to ensure we deliver true business transformation. - Leveraging the use of collaboration tools to maintain our ability to work effectively, despite Covid-19 related restrictions on the co-location of our colleagues.		
Focus areas for 2020/21: - Developing and implementing the transformation delivery governance model, implementing programme management tools and continuing to develop the skills of our colleagues. - Tracking progress of the financial and non-financial measures of the transformation. - Continued drive to identify and implement more transformation initiatives across the business.		

Major contracts	Link to strategy: 1, 2, 3 Link to business model: F, C, B Links to Group KPIs: 1, 6, 7, 8, 9, 11	Movement: ↑
Risk description: - Failure to successfully manage our large complex and high-value national and multinational customer contracts (including the Emergency Services Network and the Broadband Delivery UK programme) and deliver the anticipated benefits. - Covid-19 related challenges, including employee absenteeism, supplier disruption, and changing customer demands, could impact our ability to deliver on all aspects of our major contracts.		
How this could impact our strategy or business model: - Failure to meet our contractual commitments and/or respond to changing customer needs, budgets or strategy could adversely impact expected future revenue, profitability and cash generation. - Our brand and reputation may be damaged by service failures, particularly those associated with critical infrastructure contracts and security and data protection services. - Covid-19 could inhibit our ability to meet our contracted delivery timescales and service levels. Additionally, profits could be impacted where customers experience shrinkage, consolidation and/or financial failure.		

Examples of how we manage this risk: - Governance, assurance, risk management and reporting processes against a clearly defined framework to manage out risk in-life. - Assurance review activity over individual contracts by an independent review team.
Focus areas for 2020/21: - Developing skills across contract management teams to better identify and manage risk. - Adopt a clear approach to understanding Covid-19 impacts on contracts and implement effective strategies to manage and recover them. - Utilisation of enhanced contract management tools to further support frontline contract managers. - Deploying artificial intelligence capability to enhance analysis of contractual risks and obligations.

Customer experience	Link to strategy: 1, 2, 3 Link to business model: F, P, C, N, B Links to Group KPIs: 1	Movement: ⇄
Risk description: Failure to transform the customer experience so that it is brand enhancing and drives sustainable profitable revenue growth.		
How this could impact our strategy or business model: Any failure to transform could adversely impact our brand value, employee pride and advocacy, customer retention, Group revenues, and/or regulatory compliance, with associated financial penalties.		
Examples of how we manage this risk: - Closely tracking a range of customer experience metrics to drive improvement and maintain high performing areas. - Launching innovative propositions (e.g. Halo and answering all BT consumer calls in the UK). - Investing in our network, including programmes which aim to increase network resilience through proactive maintenance and weather-proofing. - Focus on maintaining customer experience during Covid-19 pandemic through: - employee redeployment, as required, to support service levels for critical services; - comprehensive planning to underpin network and IT availability, and broadband performance; and - prioritising and supporting vulnerable and distressed customers and critical industries, with changes to product packages and payment plans.		
Focus areas for 2020/21: - Rapid rollout of FTTP and 5G networks. - Continued development and launch of innovative product and service propositions. - Migrating homes and businesses to superfast broadband at no extra cost to them. - Maintaining network performance and customer experience during the Covid-19 pandemic.		

Service interruption	Link to strategy: 1, 2 Link to business model: F, C, N, B Links to Group KPIs: 1, 6, 7, 8, 9, 11	Movement: ⇄
Risk description: - Any major or repeated failure to maintain the continuity of end-to-end customer services (e.g. network connectivity and performance, and IT systems and service platforms). - A failure could be caused by natural perils, pandemics, network and system faults, malicious acts, supply chain failure, and software or infrastructure outages.		
How this could impact our strategy or business model: - Regulatory breaches, financial penalties, reduced productivity and potential harm to individuals. - Damage to reputation, especially during the Covid-19 outbreak when the country is so reliant on our connectivity, and our ability to retain and grow our customer base.		
Examples of how we manage this risk: - Close monitoring of our IT, fixed and mobile network performance and maintaining controls for incident, change and problem management. - Implementation of lessons-learned from our continual war-gaming and analysis of real incidents. - Weather resilience improvement programmes for our key network assets (e.g. flood, lightning, wind, heat). - Mobile, geographically dispersed Emergency Response Teams to mitigate incident impacts.		
Focus areas for 2020/21: - Improved change management processes through strengthening our testing capability and driving greater accountability across third-party changes. - Initiation of projects aimed at mitigating the longer-term risk to our estate posed by climate change and associated extreme weather events. - Planning to manage near and longer-term service risks related to a transition from the pandemic 'lockdown' back to a 'normal' trading model. - Heightened monitoring and service protection measures across all services and platforms in response to Covid-19, with increased call capacity between mobile and fixed lines to handle increased demand.		

Colleague engagement	Link to strategy: 1, 3 Link to business model: F, P, C, B Links to Group KPIs: 2, 3, 6, 7, 8, 9	Movement: ⇄
Risk description: - Negative reaction to change or poor consultation adversely impacts colleague engagement and subsequent ability to achieve our strategic objectives. - Covid-19 and associated lockdown reduces employee availability and our ability to operate effectively.		
How this could impact our strategy or business model: - Loss of talent and skills could impact our recruitment costs and ability to deliver our strategic objectives. - Poor engagement could slow our change agenda, and/or lead to industrial unrest and action. - Reduced employee attendance, engagement, and discretionary effort, with subsequent impact on customer experience, in the event we fail to support employee needs during the Covid-19 pandemic.		
Examples of how we manage this risk: - Our Colleague Board, with representation from across our business, gives colleagues a louder voice. - Streamlining management structures to move decision-making and colleague engagement closer to the front-line. - Close engagement and consultation with the recognised trade unions and impacted employees to deliver our market aligned, streamlined organisation structure – the People Framework. - Comprehensive employee engagement programme to deliver the retraining, reskilling, redeployment and redundancy plans underpinning our transformation agenda. - Enabling our colleagues to work from home where possible and highlighting guidance and support mechanisms available to them. - Deployed policies, aligned to Government, Public Health England and medical advice, that support and protect employees delivering critical national services and those unable to work during the Covid-19 pandemic.		
Focus areas for 2020/21: - Robustness of our business continuity plans to enable rapid adaption to changing circumstances. - Continued extensive communication with our colleagues and taking of steps to safeguard their wellbeing. - Investment in direct employee engagement and our Colleague Board, alongside our formal employee representative structures.		

Financial risks

Pension scheme	Link to strategy: 3 Link to business model: F, I Links to Group KPIs: None	Movement: ↑
Risk description: - Our defined benefit pension schemes, in particular the BT Pension Scheme (BTPS), could become more of a financial burden as a result of future low investment returns, changes in inflation expectations, longer life expectancies, a more prudent approach being taken (e.g. if BT's financial strength is viewed as having worsened) and/or regulatory changes. - The risk has increased due to the forthcoming review of contributions for the BTPS as at 30 June 2020 and recent market movements following the Covid-19 outbreak.		
How this could impact our strategy or business model: - Additional cash contributions to the BTPS could reduce our ability to invest in our business and/or pay dividends. - A rise in the BTPS deficit could negatively affect our share price and/or credit rating making it harder and more expensive to access funding.		
Examples of how we manage this risk: - Regularly reviewing the BTPS's funding position and investment performance. - Agreeing an investment strategy with the BPS Trustee, which reduces investment risk over time, including hedging of the exposure to changes in interest rates, inflation and life expectancy.		
Focus areas for 2020/21: - Agree the next triennial valuation of the BTPS, as at June 2020, which will set the contributions we need to make for the next three years. - Review and prepare response to relevant consultations, including those relating to RPI reform and the funding regime for defined benefit pension schemes, to support the Pensions Regulator's aim of being clearer, quicker and tougher.		

Financial risk	Link to strategy: 3 Link to business model: F, I Links to Group KPIs: 6, 7, 8, 9, 10, 11	Movement: ↑
Risk description: - Exposure to funding and liquidity risks, including those arising from our underlying business operations, and also to financial risks such as interest rate, foreign exchange and counterparty risks. - Any failure to properly anticipate future tax changes and/or comply with the tax rules of the countries in which we operate.		

How this could impact our strategy or business model: - Interest and foreign exchange rate movements could negatively affect our profitability, cash flow and balance sheets. - Counterparty risks could negatively impact our liquidity and profitability. - Tax risks could expose us to poor business decisions (e.g. under-pricing contract bids), financial penalties and reputational damage. - Funding and liquidity risks could impact our viability and ability to continue as a going-concern, including a downturn in our business operations for unexpected factors, e.g. Covid-19.
Examples of how we manage this risk: - The Board has set a long-term credit rating target of BBB+/Baa1, with a BBB floor, and approves an annual five-year funding plan that identifies liquidity and funding requirements. - Management of our liquidity and funding requirements and financial risks is undertaken by a centralised treasury function, which is required to maintain minimum amounts of committed stand-by liquidity and pre-funding debt maturities up to 18 months in advance. - Tax risks are managed through our Tax Control Framework. - Enhanced counterparty credit risk management procedures in response to Covid-19.
Focus areas for 2020/21: - Taking action, as required, to maintain our current credit rating at BBB. - Monitoring the development of the OECD's proposals to update international tax rules to deal with the digitalisation of economies. - Managing any increased volatility in foreign exchange and counter-party risks associated with the expected end of the transitional Brexit period and Covid-19. - Maintain sufficient funding and liquidity for our updated annual business plans, especially in light Covid-19 related uncertainty.

Compliance risks

Health, safety & wellbeing	Link to strategy: 2 Link to business model: F, P, C, N, B Links to Group KPIs: None	Movement: ↑
Risk description: Any failure to look after the health, safety and wellbeing of our colleagues and/or members of the public, especially in light of Covid-19 related exposures, with potential breaches of health and safety laws and regulations.		
How this could impact our strategy or business model: Potential injury of our colleagues and/or members of the public, financial penalties, disruption to our operations, and associated reputational damage.		
Examples of how we manage this risk: Our goal is to achieve zero incidents of avoidable harm and to enable leading performance in standards of health, safety and wellbeing for our colleagues, achieved by: - training all of our colleagues in basic health, safety and wellbeing; - monitoring the health, safety and wellbeing of our colleagues through survey and focus groups, supported by a dedicated 'yourwellbeing' portal and a mental health awareness training programme for line managers; - monitoring performance levels across our operations using a global incident reporting system; and - risk-based oversight of supplier compliance with BT minimum safety standards.		
Focus areas for 2020/21: - Rollout of our fall-arrest harness training programme. - Continue to assess public perceptions on the UK-wide 5G rollout and ensure compliance with European and industry guidance. - Strengthening our assurance and oversight functions. - Monitoring potential Covid-19 impacts on our colleagues, and complying with global and government public health guidance, assessments and measures; this also informs our business continuity planning activity.		

Significant control failure	Link to strategy: 2, 3 Link to business model: F Links to Group KPIs: 7, 8, 9, 11	Movement: ⇄
Risk description: Any failure of our financial controls to prevent and/or detect fraud, financial misstatement or other financial loss.		
How this could impact our strategy or business model: Failures in our financial control framework could result in financial misstatement, financial loss including a failure to prevent fraud, or key decisions being taken based on incorrect information.		
Examples of how we manage this risk: - Implementation of a financial controls framework, with appropriate policies, processes, checks and balances – including quarterly certifications over key controls by senior leaders. - Training of our colleagues on financial controls assurance and fraud awareness and implementing best practice, awareness and understanding of controls. - Carrying out effective first, second and third-line assurance activities. - While not complete, management have made substantial progress in remediating the matters we concluded to be material weaknesses (as defined by the Sarbanes Oxley Act) in the prior year, in relation to IT general controls and risk assessment.		

Focus areas for 2020/21:

- Continue our control enhancement programme, in particular an ongoing focus on the remediation of the material weaknesses in IT general controls and risk assessment.
- Further enhance our control environment through the implementation of technology enablers, including data analytic procedures.

Privacy and data protection	Link to strategy: 2 Link to business model: F, P, C, B, S Links to Group KPIs: 2, 3, 6, 7, 9	Movement: ⇄
Risk description: • Breach of data privacy laws through misuse of, or failure to secure and protect, customer and employee data. • Potential additional Covid-19 related security risks in relation to increased work from home arrangements.		
How this could impact our strategy or business model: • Regulatory enforcement action that could result in an order to cease data processing, significant fines, class-action legal suits and/or prison sentences. Other impacts may include material reputational damage, disruption of business operations and increased customer churn.		
Examples of how we manage this risk: • Review of activity across the business that utilises personal data to ensure compliance with our data policies. • Provision of data handling training and tools to help our colleagues make better, risk-based decisions in their day-to-day activities. • Due diligence activity over third parties' data-handling and security arrangements. • Agree Binding Corporate Rules with the UK data regulator to guide and support our business operations. • Implement Brexit contingency planning to maintain required data flows. • Additional privacy impact assessments undertaken and security measures implemented to mitigate against potential risk associated with high volumes of staff working from home.		
Focus areas for 2020/21: • Continued development of our operating model to ensure regulatory requirements and compliance expectations are consistently and appropriately ascertained, communicated and monitored across our business. • Evaluating and enhancing systems related to our evolving data processing operations. • Developing new and targeted employee training and engagement. • Further enhancing the clarity and consistency of our data governance and assurance programmes.		

Ethical culture	Link to strategy: 1, 2, 3 Link to business model: F, P, C, B, S Links to Group KPIs: None	Movement: ⇄
Risk description: • The prevailing culture in BT leads to a failure to promptly recognise and report wrongdoing by our colleagues and/or those working on our behalf, which could include a breach of our internal policies and procedures, and/or applicable laws (e.g. anti-bribery and corruption, trade sanctions and human rights.)		
How this could impact our strategy or business model: • Unethical or inappropriate behaviour could result in fraud or a breach of regulation or legislation, exposing BT to significant penalties, criminal prosecution, reputational damage and/or loss of customers and revenue.		
Examples of how we manage this risk: • Setting appropriate policies and monitoring their implementation and compliance through assurance reviews, data analytics and our integrity risk dashboard. • Employee awareness communication and training. • Due-diligence over business changes and suppliers and monitoring key metrics. • Operation of a confidential 'SpeakUp' channel, which anyone can use to call out wrongdoings.		
Focus areas for 2020/21: • Continued focus on our due-diligence, monitoring and review activities on higher risk areas and third parties, (e.g. agents, resellers, distributors, joint ventures and subsidiaries). • A new and target approach to Senior Manager training and engagement on ethics and compliance. • Implementing our one BT Integrity and Compliance programme to enhance the clarity, consistency and governance around how we set and govern policy, and ensure our organisational culture is 'fit for purpose' everywhere that we operate.		

Emerging Risks

We face a number of uncertainties that have the potential to be materially significant to our long-term strategy but cannot be fully defined as a specific risk at present, and therefore cannot be fully assessed or managed. These emerging risks typically have a long time horizon, such as climate change, certain new technologies and long-term geopolitical trends.

Our enhanced risk management framework places greater emphasis on the identification of emerging risks, so that we can pro-actively monitor them and ensure they inform our strategic planning and resilience activities.

A focus on climate change

The physical impacts of climate change and the actions taken by governments and society to try and limit global warming to well below 2°C by 2100 may impact our assets in the UK and globally, as well as our ability to source raw materials. As our customers seek to reduce their own emissions, demand for our propositions and services may also change.

We have conducted an analysis of the potential future climate-related impacts on BT; the main threats and opportunities identified are as follows:

Physical impacts

- The impacts of extreme weather events, in particular of flooding and chronic increases in temperature, on our suppliers, operational assets and vehicle fleet.

Policy decisions and low carbon transition risks

- Potential carbon price increasing the operating cost of our assets.
- Potential policy changes that impact our ability to use our existing vehicle fleet.
- Increased costs of sourcing renewable energy due to changes in demand.
- Potential policy changes around end-of-life obligations and rights to repair relevant to our propositions.

Opportunities

- The potential to recover and reuse infrastructure and product materials, which can contribute to a low carbon, circular economy.
- Increasing demand for our propositions to support customers to move to a net zero society.

In response, we have pledged to become a net zero carbon emissions business by 2045. We plan to meet this target through the purchase of 100% renewable electricity, converting our vehicle fleet to ultra-low emissions vehicles and to continue to decarbonise our buildings. We are also considering our global response to physical climate impacts, building on work in the UK to implement flood defences and minimise service disruption.

Additional Information

Notes

- 1) Our commentary focuses on the trading results on an adjusted basis, which is a non-GAAP measure, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. This is consistent with the way that financial performance is measured by management and reported to the Board and the Executive Committee and assists in providing a meaningful analysis of the trading results of the group. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Reported revenue, reported operating profit, reported profit before tax, reported net finance expense and reported EPS are the equivalent unadjusted or statutory measures. Reconciliations of reported to adjusted revenue, operating costs, operating profit, profit before tax and EPS are set out in the Group income statement. Reconciliations of adjusted earnings before interest, tax, depreciation and amortisation, net debt and free cash flow from the nearest measures prepared in accordance with IFRS are provided in this Additional Information.

Reconciliation of earnings before interest, tax, depreciation and amortisation

Earnings before interest, tax, depreciation and amortisation (EBITDA) is not a measure defined under IFRS, but is a key indicator used by management to assess operational performance. We consider EBITDA and adjusted EBITDA to be useful measures of our operating performance because they approximate the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA and adjusted EBITDA are not direct measures of our liquidity, which is shown by our cash flow statement, and need to be considered in the context of our financial commitments. A reconciliation of reported profit for the period to EBITDA and adjusted EBITDA is provided below.

	Full year to 31 March	
	2020 (IFRS 16 ¹) £m	2019 (IAS 17 ¹) £m
Reported profit for the period	1,734	2,159
Tax	619	507
Reported profit before tax	2,353	2,666
Net interest related finance expense	750	606
Depreciation and amortisation	4,274	3,546
EBITDA	7,377	6,818
EBITDA specific items	350	425
Net other finance expense	147	150
Share of post tax losses (profits) of associates and joint ventures	33	(1)
Adjusted² EBITDA	7,907	7,392

¹ Following adoption of IFRS 16 on 1 April 2019, operating lease charges previously included within EBITDA and adjusted EBITDA have been replaced with depreciation on right-of-use assets and interest expense on lease liabilities. See note 1 to the condensed consolidated financial statements

² See Glossary on page 3

Free cash flow

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

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

	Full year to 31 March	
	2020	2019
	£m	£m
Cash inflow from operating activities	6,481	4,687
Tax paid	(210)	(431)
Net cash inflows from operating activities	6,271	4,256
Net purchase of property, plant and equipment and software	(3,889)	(3,637)
Free cash flow ¹	2,382	619
Interest received	30	23
Interest paid	(736)	(531)
Add back pension deficit payments	1,274	2,024
Dividends from associates	1	—
Net cash flow from specific items	112	598
Net sale of non-current asset investments	33	1
Refund on acquisition of spectrum licence	—	(21)
Payment of lease liabilities ²	(651)	—
Cash tax benefit of pension deficit payments	(434)	(273)
Normalised free cash flow ¹	2,011	2,440

¹ See Glossary on page 3

² Payments relating to lease liabilities recognised on adoption of IFRS 16 on 1 April 2019, see note 1

Net Debt

Net debt is not a measure defined under IFRS but is a key indicator used by management to assess both the group's cash position and its indebtedness. A reconciliation from loans and other borrowings, lease liabilities, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures, to net debt, is set out below.

	31 March 2020	31 March 2019
	£m	£m
Loans and other borrowings	19,334	16,876
Lease liabilities ¹	6,560	—
Cash and cash equivalents	(1,549)	(1,666)
Current asset investments	(5,092)	(3,214)
Net liabilities classified as held for sale ²	19	—
	19,272	11,996
Adjustments:		
To re-translate currency denominated balances at swapped rates when hedged ³	(1,049)	(701)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method ⁴	(254)	(260)
Net debt⁵	17,969	11,035
Lease liabilities ⁶	(6,560)	(206)
Lease liabilities classified as held for sale ²	(62)	—
Net financial debt⁶	11,347	10,829

¹ Lease liabilities recognised on adoption of IFRS 16 on 1 April 2019, see note 1

² Net liabilities classified as held for sale comprise cash and cash equivalents of £43m and lease liabilities of £62m

³ The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency

⁴ Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date

⁵ See Glossary on page 3

⁶ Lease liabilities recognised at 31 March 2019 relate to finance leases reclassified to lease liabilities on adoption of IFRS 16 on 1 April 2019

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

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) is not a measure defined under IFRS, but is a key indicator used by management to assess operational performance. Adjusted EBITDA is defined as EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense.

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

	Full year to 31 March 2020
	%
Increase (decrease) in reported EBITDA (IAS 17)	8.2
EBITDA specific items	(1.5)
Other finance expense	(0.2)
Share of post tax losses (profits) of associates and joint ventures	0.5
IFRS 16 adjustment	(9.7)
Increase (decrease) in adjusted ¹ EBITDA (IFRS 16)	(2.7)

¹ See Glossary on page 3

Forward-looking statements – caution advised

This results release contains certain forward-looking statements which are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements include, without limitation, those concerning: the potential impact of Covid-19 on our people, operations, suppliers and customers; current and future years' outlook; revenue and revenue trends; EBITDA and profitability; free cash flow; capital expenditure; return on capital employed; shareholder returns including dividends and share buyback; net debt; credit ratings; our group-wide transformation and restructuring programme, cost transformation plans and restructuring costs; investment in and roll out of our fibre network and its reach, innovations, increased speeds and speed availability; our broadband-based service and strategy; investment in and rollout of 5G; the investment in converged network; improvements to the customer experience; our investment in TV, enhancing our TV service and BT Sport; the recovery plan, operating charge, regular cash contributions and interest expense for our defined benefit pension schemes; effective tax rate; growth opportunities in networked IT services, the pay-TV services market, broadband, artificial intelligence and mobility and future voice; growth of, and opportunities available in, the communications industry and BT's positioning to take advantage of those opportunities; expectations regarding competition, market shares, prices and growth; expectations regarding the convergence of technologies; plans for the launch of new products and services; network performance and quality; the impact of regulatory initiatives, decisions and outcomes on operations; BT's possible or assumed future results of operations and/or those of its associates and joint ventures; investment plans; adequacy of capital; financing plans and refinancing requirements; demand for and access to broadband and the promotion of broadband by third-party service providers; improvements to the control environment; and those statements preceded by, followed by, or that include the words 'aims', 'believes', 'expects', 'anticipates', 'intends', 'will', 'should', 'plans', 'strategy', 'future', 'likely', 'seeks', 'projects', 'estimates' or similar expressions.

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: the duration and severity of Covid-19 impacts on our people, operations, suppliers and customers; failure to respond effectively to intensifying competition and technology developments; failure to address the lingering perception of slow pace and connectivity in broadband and mobile coverage, which continues to be raised at a UK parliamentary level; undermining of our strategy and investor confidence caused by an adversarial political environment; challenges presented by Covid-19 around network resilience, support for staff and customers, data sharing and cyber security defence; unfavourable regulatory changes; attacks on our infrastructure and assets by people inside BT or by external sources like hacktivists, criminals, terrorists or nation states; a failure in the supplier selection process or in the ongoing management of a third-party supplier in our supply chain, including failures arising as a result of Covid-19; risks relating to our BT transformation plan; failure to successfully manage our large, complex and high-value national and multinational customer contracts (including the Emergency Services Network and the Building Digital UK (BDUK) programme) and deliver the anticipated benefits; changes to our customers' needs, budgets or strategies that adversely affect our ability to meet contractual commitments or realise expected revenues, profitability or cash generation; customer experiences that are not brand enhancing nor drive sustainable profitable revenue growth; pandemics, natural perils, network and system faults, malicious acts, supply chain failure, software changes or infrastructure outages that could cause disruptions or otherwise damage the continuity of end to end customer services including network connectivity, network performance, IT systems and service platforms; insufficient engagement from our people; adverse developments in respect of our defined benefit pension schemes; risks related to funding and liquidity, interest rates, foreign exchange, counterparties and tax; failures in the protection of the health, safety and wellbeing of our employees or members of the public or breaches of health and safety law and regulations; financial controls that may not prevent or detect fraud, financial misstatement or other financial loss; security breaches relating to our customers' and employees' data or breaches of data privacy laws; failure to recognise or promptly report wrongdoing by our people or those working for us or on our behalf (including a failure to comply with our internal policies and procedures or the laws to which we are subject); and the potential impacts of climate change on our business.

BT undertakes no obligation to update any forward-looking statements whether written or oral that may be made from time to time, whether as a result of new information, future events or otherwise.

The person responsible for making this announcement is Rachel Canham, BT's Company Secretary

About BT

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

For more information, visit www.btplc.com

Enquiries

Press office:

Tom Engel

Tel: 020 7356 5369

Investor relations:

Mark Lidiard

Tel: 020 7356 4909

We will hold the fourth quarter and full year 2019/20 results call for analysts and investors in London at 8am today and a simultaneous webcast will be available at www.bt.com/results

We expect to publish the BT Group plc Annual Report 2020 on 21 May 2020. The Annual General Meeting of BT Group plc will be held on 16 July 2020.

We are scheduled to announce the first quarter results for 2020/21 on 31 July 2020.