

Financial results



25 July 2012

BT GROUP PLC

RESULTS FOR THE FIRST QUARTER TO 30 JUNE 2012

BT Group plc (BT.L) today announced its results for the first quarter to 30 June 2012.

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

“We have delivered another quarter of profit growth and the 11th consecutive quarter of double-digit earnings per share growth, although our quarterly cash flow was impacted by the timing of working capital movements. There were good performances in BT Retail, BT Wholesale and Openreach while BT Global Services was impacted by the tough conditions in Europe and the financial services sector.

“Our financial performance allows us to keep investing for the future. Our engineers are rolling out fibre at pace bringing fibre broadband to over 2m more homes and businesses in the quarter and it’s now available to over 11m premises. Our investment plans are creating around 2,000 jobs in 2012 by recruiting engineers to support our fibre plans and opening four new UK call centres. We continue to make good progress with our investments in the faster growing economies.”

First quarter results:

	First quarter to 30 June 2012	
	£m	Change
Revenue	4,484	(6)%
Underlying revenue excluding transit		(3.2)%
EBITDA ¹	1,463	2%
Profit before tax ¹	578	8%
Earnings per share - adjusted ¹	5.7p	10%
- reported	5.8p	16%
Normalised free cash flow ²	(124)	£(325)m
Net debt	9,142	£557m

¹ Before specific items

² Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

RESULTS FOR THE FIRST QUARTER TO 30 JUNE 2012

Group results

	First quarter to 30 June		
	2012	2011	Change
	£m	£m	%
Revenue	4,484	4,764	(6)
- underlying revenue excluding transit ¹			(3.2)
EBITDA			
- adjusted ²	1,463	1,436	2
- reported	1,461	1,370	7
Operating profit			
- adjusted ²	740	697	6
- reported	738	631	17
Profit before tax			
- adjusted ²	578	533	8
- reported	584	517	13
Earnings per share			
- adjusted ²	5.7p	5.2p	10
- reported	5.8p	5.0p	16
Capital expenditure	622	582	7
Free cash flow			
- normalised ³	(124)	201	n/m
- adjusted ²	38	308	(88)
Net debt	9,142	8,585	6

Line of business results²

First quarter to 30 June	Revenue			EBITDA			Operating cash flow		
	2012	2011	Change	2012	2011	Change	2012	2011	Change
	£m	£m	%	£m	£m	%	£m	£m	%
BT Global Services	1,730	1,905	(9)	119	138	(14)	(315)	(60)	n/m
BT Retail	1,776	1,830	(3)	476	446	7	247	294	(16)
BT Wholesale	923	1,004	(8)	300	307	(2)	129	119	8
Openreach	1,257	1,255	0	553	538	3	209	177	18
Other and intra-group items	(1,202)	(1,230)	2	15	7	n/m	(232)	(222)	(5)
Total	4,484	4,764	(6)	1,463	1,436	2	38	308	(88)

¹ Underlying revenue excluding transit is defined below

² Before specific items. Specific items are defined below

³ Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

n/m = not meaningful

Notes:

- 1) Unless otherwise stated, any reference to revenue, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, operating costs, profit before tax, earnings per share (EPS) and free cash flow are measured before specific items. The commentary focuses on the trading results on an adjusted basis being before specific items. This is consistent with the way that financial performance is measured by management and is reported to the Board and the Operating Committee and assists in providing a meaningful analysis of the trading results of the group. The directors believe that presentation of the group's results in this way is relevant to the understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Specific items may not be comparable to similarly titled measures used by other companies. Reported revenue, reported EBITDA, reported operating profit, reported profit before tax, reported EPS and reported free cash flow are the equivalent unadjusted or statutory measures.
- 2) Underlying revenue, underlying costs and underlying EBITDA are measures which seek to reflect the underlying performance of the group that will contribute to long-term profitable growth and as such exclude the impact of acquisitions and disposals, foreign exchange movements and any specific items. We are focusing on the trends in underlying revenue excluding transit revenue as transit traffic is low-margin and is significantly affected by reductions in mobile termination rates.
- 3) Unless otherwise stated, the references 2011, 2012, 2013, 2014 and 2015 are the financial years to 31 March 2011, 2012, 2013, 2014 and 2015, respectively, except in relation to our fibre roll-out plans and job creation and recruitment plans which are based on calendar years.

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A conference call for analysts and investors will be held at 9.00am today and a simultaneous webcast will be available at www.bt.com/results

The second quarter and half year results for 2013 are expected to be announced on Thursday 1 November 2012.

About BT

BT is one of the world's leading providers of communications services and solutions, serving customers in more than 170 countries. Its principal activities include the provision of networked IT services globally; local, national and international telecommunications services to its customers for use at home, at work and on the move; broadband and internet products and services and converged fixed/mobile products and services. BT consists principally of four lines of business: BT Global Services, BT Retail, BT Wholesale and Openreach.

In the year ended 31 March 2012, BT Group's revenue was £18,897m with profit before taxation of £2,445m.

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

For more information, visit www.btplc.com

BT Group plc

RESULTS FOR THE FIRST QUARTER TO 30 JUNE 2012

GROUP RESULTS

Operating results overview

Underlying revenue excluding transit decreased by 3.2% reflecting the tough conditions in Europe and the financial services sector, the impact of regulatory price reductions and lower revenue from calls and lines. Revenue was down 6% at £4,484m with transit revenue down by £67m (including mobile termination rate reductions of £60m), a £56m negative impact from foreign exchange movements, largely due to the weakening of the Euro, and a £13m impact from disposals.

Underlying operating costs were down 8%. Total operating costs before depreciation and amortisation and specific items decreased by £317m, or 9%, to £3,109m.

Net labour costs decreased by 2% to £1,190m. Payments to telecommunications operators were down 16%, reflecting lower mobile termination rates and reduced transit and wholesale call volumes. We saw further reductions across our other cost categories reflecting the lower revenue and the impact of efficiency improvements.

Adjusted EBITDA increased by 2% to £1,463m. Excluding a £7m negative impact from foreign exchange movements and a £3m impact from disposals, underlying EBITDA increased by 3%.

Depreciation and amortisation of £723m was down 2%, in line with the previous quarter. Capital expenditure was £622m, up 7%, principally due to increased investment in fibre broadband.

Net finance expense

Adjusted net finance expense was £169m, broadly flat compared with the prior year.

Profit before tax

Adjusted profit before tax was £578m, up 8%, reflecting the higher EBITDA and lower depreciation and amortisation. Reported profit before tax (which includes specific items) was £584m, up 13%.

Tax

The effective tax rate on the profit before specific items was 22.7% (Q1 2012: 24.1%) and is in line with our outlook of around 23% for the full year.

Specific items

Specific items resulted in a net credit after tax of £4m (Q1 2012: £19m net charge). During the quarter we disposed of a non-core business in Italy resulting in a gain of £6m. Specific operating costs principally comprise BT Global Services restructuring charges of £8m (Q1 2012: £22m). Net interest income on pensions was £8m (Q1 2012: £50m).

Earnings per share

Adjusted EPS was 5.7p, up 10%, and reported EPS (which includes specific items) was 5.8p, up 16%. These are based on a weighted average number of shares in issue of 7,788m (Q1 2012: 7,755m).

Free cash flow

Normalised free cash flow was an outflow of £124m (Q1 2012: £201m inflow). The decline is largely driven by working capital movements, higher capital expenditure reversing the benefit seen in the previous quarter, and increased tax of £171m (Q1 2012: £136m), which is before the £162m (Q1 2012: £107m) tax benefit from pension deficit payments. Normalised free cash flow was lower than expected largely due to around £150m of late payments by customers, around £100m of which were subsequently received in early July, and the £27m deposit for the Premier League football broadcast rights.

Adjusted free cash flow was an inflow of £38m (Q1 2012: £308m).

The cash cost of specific items was £33m (Q1 2012: £61m) comprising BT Global Services restructuring costs of £15m (Q1 2012: £46m) and property rationalisation costs of £18m (Q1 2012: £13m).

Net debt and liquidity

Net debt was £9,142m at 30 June 2012, an increase of £60m compared with 31 March 2012. During the quarter we issued US\$1.25bn of bonds, of which US\$500m mature in December 2013 and US\$750m in June 2015, with an average effective annualised interest rate of 2.15%. The proceeds were swapped into Sterling funds of £795m.

At 30 June 2012 we had cash and current investment balances of £1.9bn and available facilities of £1.5bn providing us with a strong liquidity and funding position. During 2013 £1.7bn of term debt matures and £0.7bn of short-term borrowing, including £0.3bn of commercial paper, is repayable.

During the quarter we bought back 40m shares for a total consideration of £82m. This forms part of our £300m share buyback programme this year to counteract the dilutive effect of all-employee share option plans under which 114m options mature on 1 August and become exercisable from then for a period of six months.

Pensions

The IAS 19 net pension position at 30 June 2012 was a deficit of £1.9bn net of tax (£2.5bn gross of tax), broadly the same as at 31 March 2012. The IAS 19 accounting position and key assumptions for the liability valuation are:

	30 June 2012	31 March 2012
	£bn	£bn
IAS 19 liabilities - BTPS	(40.1)	(40.6)
Assets - BTPS	37.8	38.3
Other schemes	(0.2)	(0.1)
IAS 19 deficit, gross of tax	(2.5)	(2.4)
IAS 19 deficit, net of tax	(1.9)	(1.9)
Discount rate (nominal)	4.65%	4.95%
Discount rate (real)	2.05%	1.84%
RPI inflation	2.55%	3.05%
CPI inflation	0.75% below RPI for three years and 1.20% below RPI thereafter	0.75% below RPI for three years and 1.20% below RPI thereafter

Broadband

We added 85,000 retail broadband customers in the quarter, representing 50% of the broadband market net additions¹ of 170,000. We added over 150,000 BT Retail fibre broadband customers and the customer base currently stands at more than 700,000.

Regulation

As expected, the new charge controls for WLR, LLU and ISDN30 products impacted revenue in the quarter. We continue to expect these to have a negative impact of around £100m–£200m on group external revenue in 2013 and a similar year on year impact in 2014.

Ofcom recently announced proposals for a revised charge control on Ethernet and wholesale leased lines which we expect to apply from the end of 2013. We expect Ofcom's final determination on disputes over historic Ethernet pricing in the next couple of months. The draft determinations proposed that BT should repay up to £145m to other communications providers and if the final determination upholds the drafts, in line with our accounting policy, we would expect this payment to be treated as a specific item in revenue and free cash flow.

Outlook

Our group outlook for 2013 remains unchanged with an improving trend in underlying revenue excluding transit, growth in adjusted EBITDA and normalised free cash flow broadly level compared with last year. Due to the timing of contract milestones highlighted last year, we expect the decline in underlying revenue excluding transit to be larger in the second quarter than in the first, with the improvement in revenue trend coming in the second half of the year. We expect normalised free cash flow in the second quarter to be lower than last year due to working capital movements before returning to growth in the second half of the year. We continue to expect that BT Global Services will grow its EBITDA in 2013 but that its cash flow will be lower due to working capital movements.

In 2014 we expect an improving trend in underlying revenue excluding transit. As announced on 13 June 2012, our investment in Premier League football broadcast rights is expected to reduce adjusted EBITDA by around £100m and normalised free cash flow by around £200m in 2014. This means in 2014 we now expect adjusted EBITDA to be broadly level with 2013 and normalised free cash flow to be above £2.2bn. As previously stated, we expect normalised free cash flow to be around £2.5bn in 2015.

¹ DSL, LLU and fibre, excluding cable

OPERATING REVIEW

BT Global Services

	First quarter to 30 June			
	2012	2011	Change	
	£m	£m	£m	%
Revenue	1,730	1,905	(175)	(9)
- underlying excluding transit				(6)
Net operating costs ¹	1,611	1,767	(156)	(9)
EBITDA	119	138	(19)	(14)
Depreciation & amortisation	155	175	(20)	(11)
Operating loss	(36)	(37)	1	3
Capital expenditure	128	117	11	9
Operating cash flow	(315)	(60)	(255)	n/m

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

Revenue

Underlying revenue excluding transit decreased by 6% due to the tough conditions in Europe and the financial services sector. Revenue was down 9% including a £51m negative impact from foreign exchange movements and a £13m impact from disposals.

Total order intake was £1.1bn in the quarter, down from £1.6bn last year reflecting the market trend towards lower order values and longer lead times. In the quarter we signed contracts with leading organisations around the world including: Rolls Royce, covering network infrastructure at 55 sites in six countries; Tesco for cloud-based contact centre services; Unilever, for global network optimisation services; and Caixa Econômica Federal, the state-owned development bank in Brazil, to connect additional branches.

We have made progress in improving our business in recent years. The risk profile of our contract portfolio has substantially improved, our customer service is better and we have enhanced and standardised our product range. We also continue to make good progress with our investments in the faster growing economies. However, the current economic environment requires us to intensify our efforts to transform our cost base by driving further material improvements in processes and service and rationalising our networks and systems.

Operating results

Net operating costs reduced by 9% reflecting the lower revenue and the impact of our cost transformation initiatives including supplier contract renegotiations, increased use of shared service centres for contract delivery, rationalisation of third party circuits and lower IT costs. Underlying operating costs excluding transit costs declined by 6%.

EBITDA decreased by 14%, or 8% excluding foreign exchange movements and disposals, as cost reductions were not sufficient to offset the decline in revenue. Underlying EBITDA excluding leaver costs, which increased by £6m, was down 3%.

Capital expenditure increased by 9% due to phasing. Operating cash flow was an outflow of £315m compared with an outflow of £60m in the prior year. The decline reflects lower contract-related receipts as expected, but also the delay in some debtor receipts and the timing of supplier payments, which all impacted working capital, as well as the lower EBITDA and higher capital expenditure.

BT Retail

	First quarter to 30 June			
	2012	2011	Change	
	£m	£m	£m	%
Revenue	1,776	1,830	(54)	(3)
Net operating costs ¹	1,300	1,384	(84)	(6)
EBITDA	476	446	30	7
Depreciation & amortisation	95	102	(7)	(7)
Operating profit	381	344	37	11
Capital expenditure	95	94	1	1
Operating cash flow	247	294	(47)	(16)

¹ Net of other operating income

Revenue

Revenue declined by 3%, consistent with the improved trend seen in the previous quarter.

Consumer revenue decreased by 2%, in line with the previous quarter, with lower calls and lines revenue partially offset by growth in broadband, driven by an increasing contribution from fibre. This growth contributed to an increase in consumer ARPU from £343 to £350.

In the quarter we added 85,000 retail broadband customers, representing 50% of the DSL, LLU and fibre broadband market net additions. BT Retail fibre broadband net additions more than doubled from the prior year with over 150,000 customers added, and our customer base currently stands at more than 700,000. BT Vision added 21,000 customers bringing the customer base to 728,000.

As part of the continuing development of our consumer offering, we secured the broadcast rights to 38 live games and 18 first picks, around half of those available, for the 2013/14 to 2015/16 Premier League football seasons. These games will be shown on a new football-focused channel which we will launch next calendar year. In addition we will start offering our bundled YouView service in the autumn which we expect to appeal to customers looking for the next evolution of the Freeview service.

Business revenue decreased by 6%, in line with the previous quarter. As expected, revenue continued to be impacted by lower IT hardware sales reflecting market conditions and our decision during the second quarter of last year to withdraw from low-margin IT hardware trade sales.

In the quarter we rebranded our wi-fi services, BT Fon and BT Openzone, to BT Wi-fi. There are now 4.2m BT Wi-fi hotspots which carried more than 1.7bn minutes in the quarter, up 80%.

Operating results

Net operating costs decreased by 6% as a result of our cost transformation initiatives and the impact of regulatory price reductions from Openreach. EBITDA increased by 7% and with depreciation and amortisation decreasing by 7%, operating profit was up 11%.

Capital expenditure increased by 1%. Operating cash flow decreased by 16% principally due to movements in working capital including the deposit for the Premier League football broadcast rights.

BT Wholesale

	First quarter to 30 June			
	2012	2011	Change	
	£m	£m	£m	%
Revenue	923	1,004	(81)	(8)
- underlying excluding transit				(2)
Net operating costs ¹	623	697	(74)	(11)
EBITDA	300	307	(7)	(2)
Depreciation & amortisation	148	152	(4)	(3)
Operating profit	152	155	(3)	(2)
Capital expenditure	72	74	(2)	(3)
Operating cash flow	129	119	10	8

¹ Net of other operating income

Revenue

Underlying revenue excluding transit decreased by 2% primarily due to the ongoing migration of broadband lines to LLU and the transition to IP-based services such as Ethernet and IP Exchange. Revenue decreased by 8% mainly due to a £68m decline in transit revenue driven by mobile termination rate reductions of £48m.

Total order intake was around £500m compared with around £70m last year. This included an increase in the scope of our Mobile Ethernet Access Service contract with MBNL to provide increased backhaul capacity at key base station sites across the UK.

IP Exchange continues to grow rapidly with voice minutes increasing by more than 90%.

Operating results

Net operating costs decreased by 11%, or 1% excluding transit costs, with reductions in total labour costs and network migration costs partly offset by the impact of changes in the product mix. EBITDA decreased by 2% and with depreciation and amortisation reducing by 3%, operating profit declined by 2%.

Capital expenditure decreased by 3% due to lower spend on Ethernet as a result of better capacity management which was partly offset by increased investment in our Wholesale Broadband Connect network. Operating cash flow increased by 8% despite late payments by certain customers.

Openreach

	First quarter to 30 June			
	2012	2011	Change	
	£m	£m	£m	%
Revenue	1,257	1,255	2	0
Net operating costs ¹	704	717	(13)	(2)
EBITDA	553	538	15	3
Depreciation & amortisation	244	232	12	5
Operating profit	309	306	3	1
Capital expenditure	286	253	33	13
Operating cash flow	209	177	32	18

¹ Net of other operating income

Revenue

Revenue was flat with growth in Ethernet and fibre being offset by the impact of regulatory price reductions for WLR, LLU and ISDN30 products.

The physical line base declined by 44,000, reflecting both normal seasonal patterns and the need to focus more on repair activity due to the adverse weather conditions which led to the deferral of some provision activity. Over the past 12 months our physical line base has increased by 74,000.

Our fibre roll-out continues at pace. We brought fibre broadband to over 2m more homes and businesses in the quarter and it is now available to over 11m premises. We achieved around 170,000 fibre connections in the quarter and have now connected around 750,000 premises.

During the quarter we received accreditation as an approved supplier within the Broadband Delivery UK (BDUK) framework. We also recently won the BDUK regional bids to deploy fibre broadband in North Yorkshire and Wales.

Operating results

Despite the increased repair activity, net operating costs reduced by 2%, partly due to lower lever costs, which resulted in an increase in EBITDA of 3%. Depreciation and amortisation increased by 5% reflecting the investment in fibre broadband and Ethernet. Operating profit was up 1%.

Capital expenditure increased by 13% as a result of increased investment in our fibre roll-out programme. Operating cash flow increased by 18% despite late payments by certain customers.

FINANCIAL STATEMENTS

Group income statement

For the first quarter to 30 June 2012

	Before specific items £m	Specific items £m	Total £m
Revenue	4,484	-	4,484
Other operating income	88	7	95
Operating costs	(3,832)	(9)	(3,841)
Operating profit	740	(2)	738
Finance expense	(172)	(493)	(665)
Finance income	3	501	504
Net finance expense	(169)	8	(161)
Share of post tax profits of associates and joint ventures	7	-	7
Profit before tax	578	6	584
Tax	(131)	(2)	(133)
Profit for the period	447	4	451
Attributable to:			
Equity shareholders	447	4	451
Non-controlling interests	-	-	-
Earnings per share			
- basic	5.7p		5.8p
- diluted	5.4p		5.5p

Group income statement

For the first quarter to 30 June 2011

	Before specific items £m	Specific items £m	Total £m
Revenue	4,764	-	4,764
Other operating income	98	-	98
Operating costs	(4,165)	(66)	(4,231)
Operating profit	697	(66)	631
Finance expense	(171)	(523)	(694)
Finance income	3	573	576
Net finance expense	(168)	50	(118)
Share of post tax profits of associates and joint ventures	4	-	4
Profit before tax	533	(16)	517
Tax	(129)	(3)	(132)
Profit for the period	404	(19)	385
Attributable to:			
Equity shareholders	404	(19)	385
Non-controlling interests	-	-	-
Earnings per share			
- basic	5.2p		5.0p
- diluted	4.9p		4.7p

Group cash flow statement
For the first quarter to 30 June

	First quarter to 30 June	
	2012 £m	2011 £m
Profit before tax	584	517
Depreciation and amortisation	723	739
Net finance expense	161	118
Profit on disposal of businesses	(7)	-
Associates and joint ventures	(7)	(4)
Share-based payments	20	21
Increase in working capital	(608)	(385)
Provisions, pensions and other non-cash movements	21	102
Cash generated from operations	887	1,108
Tax paid	(9)	(29)
Net cash inflow from operating activities	878	1,079
Cash flow from investing activities		
Interest received	2	1
Proceeds on disposal of property, plant and equipment	3	3
Acquisition of associates and joint ventures	(1)	-
Sale of subsidiaries, net of bank overdrafts	17	-
Disposal of associates and joint ventures	-	7
Purchases of property, plant and equipment and computer software	(664)	(621)
Net sale of non-current asset investments	1	-
Purchase of current financial assets	(2,563)	(1,841)
Sale of current financial assets	1,538	1,481
Net cash used in investing activities	(1,667)	(970)
Cash flow from financing activities		
Interest paid	(215)	(215)
Equity dividends paid	(1)	(1)
Repayment of borrowings	(2)	(14)
Repayment of finance lease liabilities	(5)	-
Receipt of bank loans and bonds	795	-
Cash flows from derivatives related to net debt	91	55
Net proceeds (repayment) of commercial paper	213	(53)
Proceeds on issue of treasury shares	4	-
Purchase of own shares	(82)	-
Net cash received (used) in financing activities	798	(228)
Effect of exchange rate movements	(4)	2
Net increase (decrease) in cash and cash equivalents	5	(117)
Cash and cash equivalents, net of bank overdrafts, at beginning of period	323	325
Cash and cash equivalents, net of bank overdrafts, at end of period	328	208

Group balance sheet

	30 June 2012 £m	30 June 2011 £m	31 March 2012 £m
Non-current assets			
Intangible assets	3,065	3,330	3,127
Property, plant and equipment	14,314	14,544	14,388
Derivative financial instruments	1,087	723	886
Investments	58	71	68
Associates and joint ventures	152	168	153
Trade and other receivables	187	284	169
Deferred tax assets	579	608	626
	19,442	19,728	19,417
Current assets			
Inventories	108	127	104
Trade and other receivables	3,606	3,779	3,307
Current tax receivables	20	-	139
Derivative financial instruments	110	94	137
Investments	1,539	369	513
Cash and cash equivalents	334	231	331
	5,717	4,600	4,531
Current liabilities			
Loans and other borrowings	3,132	457	2,887
Derivative financial instruments	71	23	89
Trade and other payables	5,627	6,121	5,962
Current tax liabilities	61	322	66
Provisions	257	106	251
	9,148	7,029	9,255
Total assets less current liabilities	16,011	17,299	14,693
Non-current liabilities			
Loans and other borrowings	8,407	9,420	7,599
Derivative financial instruments	855	531	757
Retirement benefit obligations	2,462	2,382	2,448
Other payables	867	837	875
Deferred tax liabilities	1,127	1,215	1,100
Provisions	575	919	606
	14,293	15,304	13,385
Equity			
Ordinary shares	408	408	408
Reserves	1,300	1,560	889
Total parent shareholders' equity	1,708	1,968	1,297
Non-controlling interests	10	27	11
Total equity	1,718	1,995	1,308
	16,011	17,299	14,693

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 quarters to 30 June 2012 and 30 June 2011 together with the audited balance sheet at 31 March 2012.

These financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2012, other than the change outlined below, 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.

These financial statements do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and have not been audited or reviewed by the independent auditors. Statutory accounts for the year to 31 March 2012 were approved by the Board of Directors on 9 May 2012, published on 24 May 2012, and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006. These financial statements should be read in conjunction with the annual financial statements for the year to 31 March 2012.

Government grants

Our policy for the recognition of government grants was changed from 1 April 2012. Under the new policy, capital expenditure and operating costs are recognised 'net' of government grants receivable. The net presentation is considered a more appropriate policy than the previous 'gross' presentation as it better presents the incremental costs of the business. The new policy has been applied prospectively and comparative financial information has not been restated on the basis of the immaterial impact of grant funding on prior period financial information.

Forward-looking statements – caution advised

Certain statements in this results release are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: current and future years' outlook, including revenue trends, EBITDA and normalised free cash flow; BT Global Services' EBITDA and cash flow, and continuing improvements in our BT Global Services business; the Premier League football broadcast rights; our fibre roll-out programme; effective tax rate; liquidity and funding; and the impact of regulation.

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

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