Group performance
Chief Financial Officer's introduction

Strong results in EE and BT Consumer were offset by declines in our enterprise units. Our results were also impacted by the settlements we reached in respect of warranty claims under the 2015 EE acquisition agreement and the restructuring costs associated with our transformation programmes.

Alternative Performance Measures

We assess the performance of the group using a variety of performance measures. These measures are not defined under IFRS and are therefore termed 'non-GAAP' measures. A reconciliation from these non-GAAP measures to the nearest prepared measure in accordance with IFRS is presented on pages 288 to 290. The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

Reported revenue decreased by 1% to £23.7bn. Our key measure of the group's revenue trend, underlying revenue[a] excluding transit, was down 1.0%.

Our reported operating profit, which includes specific items, was up 7%. Our adjusted[b] operating profit was down 3% reflecting increased pension costs, business rates, sports rights and increased customer investment partly offset by reduced payments to other telecoms operators and cost savings.

Reported profit before tax was up 11% to £2.6bn and adjusted[b] profit before tax was £3.4bn, down 2%. Reported EPS of 20.5 pence was up 7% and adjusted EPS of 27.9 pence was down 3%.

Net cash inflow from operating activities was £4.9bn, down 20%, while normalised free cash flow[c] was £3.0bn, up 7% mainly due to favourable working capital movements.

Our specific items include a charge of £225m in relation to full and final settlements with Deutsche Telekom and Orange in respect of any warranty claims under the 2015 EE acquisition agreement, arising from the issues previously announced regarding our operations in Italy.

The first phase of our restructuring programme, which we announced in May 2017 and which focused principally in Global Services, TSO and Corporate Functions, is firmly on track. We have incurred costs of £241m, removing over 2,800 roles mainly from managerial and back office areas. This restructuring programme delivered savings of £180m in 2017/18.

We also remain firmly on track to deliver our EE integration targets, having delivered a run-rate of £290m of annual cost synergies by the end of 2017/18.

The next phase of our restructuring programme includes transforming BT's operating model, driving productivity improvements in core UK operations, and repositioning Global Services as a more focused, digital business. This restructuring programme will deliver a reduction of c13,000 roles over three years, and a gross cash cost reduction of £1.5bn in the third year, with costs to achieve of £800m and two-year payback. The cost reductions will help offset near term cost and revenue pressures, provide capacity to invest in value enhancing projects and drive longer term profit growth.

Simon Lowth
Chief Financial Officer
9 May 2018

[a] Excludes specific items, foreign exchange movements and disposals.
[b] Before specific items, which are defined on page 288.
[c] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments.

Group performance

Summary financial performance for the year

Performance against our outlook

We achieved the financial guidance we set out at the beginning of the year for adjusted EBITDA and exceeded it for normalised free cash flow. We were below our outlook of broadly flat for underlying revenue excluding transit.

2017/18 performance against our outlook

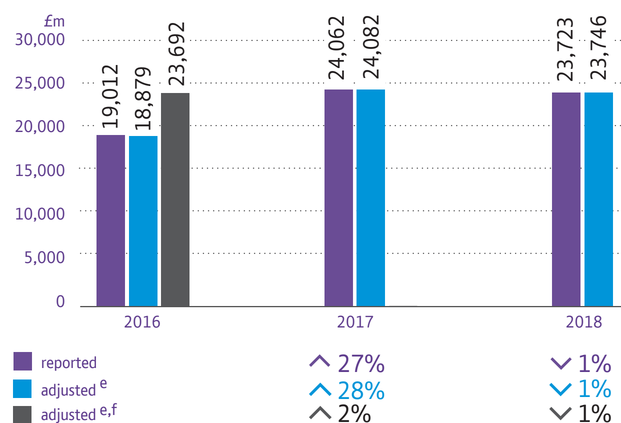
	Outlook provided in May 2017	Result
Change in underlying revenue excluding transit[a]	Broadly flat	(1.0)%
Adjusted EBITDA[a]	£7.5bn–£7.6bn	£7.5bn
Normalised free cash flow[a]	£2.7bn–£2.9bn	£3.0bn

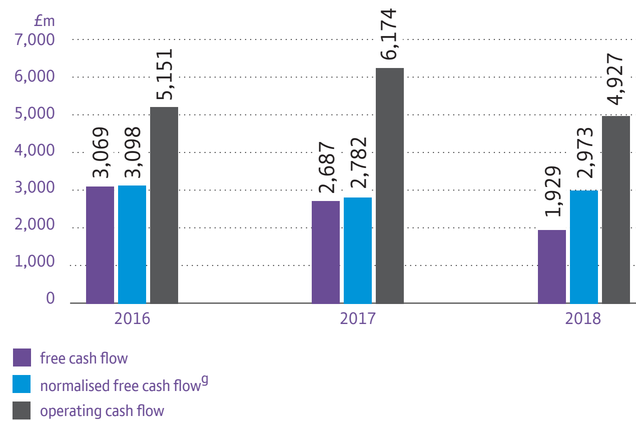
Reported revenue decreased by 1% to £23.7bn. Underlying revenue excluding transit was down 1.0%, which was below our outlook of broadly flat.

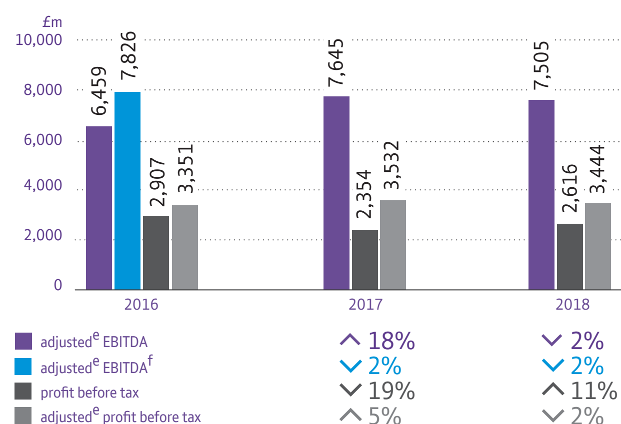
Adjusted EBITDA decreased 2% to £7.5bn. This was within our outlook of £7.5bn–£7.6bn.

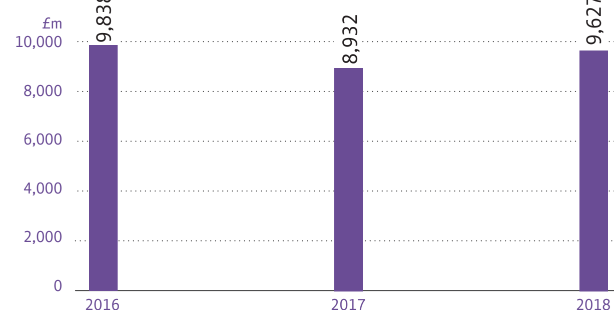
Normalised free cash flow was £3.0bn, up 7% and above our original outlook, mainly due to favourable working capital movements.

Change in underlying revenue[a,b,c]	Down c2%
Adjusted EBITDA[a,c]	£7.3bn–£7.4bn
Capital expenditure[d]	c£3.7bn
Normalised free cash flow[a]	£2.3bn–£2.5bn









[a] Defined on pages 288 to 290.
[b] Including transit, but excluding specific items, foreign exchange movements and the effect of acquisitions and disposals.
[c] On an IAS 18 basis.
[d] Excluding BDUK clawback.
[e] Items presented as adjusted are stated before specific items. See page 288 for further details.
[f] Calculated as though EE had been part of the group from 1 April 2015. From 2016/17, no separate measure is shown as EE was part of the group for the full years and there is no difference to the adjusted measures.
[g] See definition on page 289 and summarised cash flow statement on page 123.

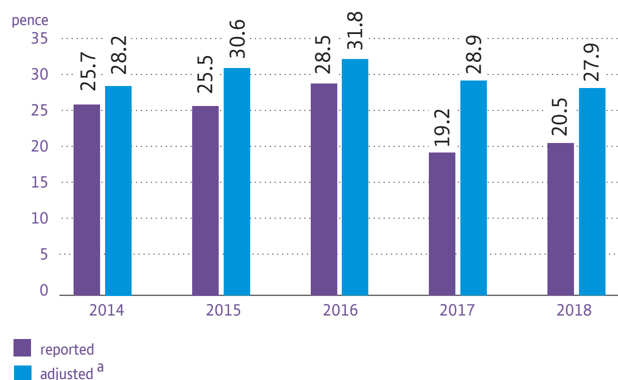
Outlook for 2018/19

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

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

Reported capital expenditure, excluding BDUK clawback, is expected to be around £3.7bn in 2018/19 and then to remain at that level in 2019/20 (on an IAS 17 basis) as the business increases network investment through Openreach's Fibre First programme

Earnings per share
Year ended 31 March



Proposed full year dividend
Year ended 31 March

15.4p
2018

15.4p
2017

and further 4G and 5G mobile network build. Having delivered normalised free cash flow in 2017/18 of £2,973m, almost £200m above the midpoint of our outlook, we expect normalised free cash flow for 2018/19 to be in the range £2.3bn to £2.5bn.

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

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

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

From this year, 2018/19, the interim dividend per share will be fixed at 30% of the prior year's full year dividend per share.

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

Transforming our costs

The first phase of our restructuring programme, which we announced in May 2017 and which focused principally in Global Services, TSO and Corporate Functions, is firmly on track. We have incurred costs of £241m, removing over 2,800 roles mainly from managerial and back office areas. This restructuring programme delivered savings of £180m in 2017/18.

We also remain firmly on track to deliver our EE integration targets, having delivered a run-rate of £290m of annual cost synergies by the end of 2017/18.

Our strategy will drive sustainable growth in value by focusing on delivering differentiated customer experiences, investing in integrated network leadership, and transforming our operating model. The next phase of our restructuring programme will deliver the transformation of our operating model. It will include driving productivity improvements in core UK operations, focusing on around 30 modern, strategic sites in the UK, and repositioning Global Services as a more focused, lower cost, digital business. This restructuring programme will deliver a reduction of c13,000 mainly back office and middle management roles over three years, and a gross cash cost reduction of £1.5bn in the third year, with costs to achieve of £800m and two-year payback. The cost reductions will help offset near term cost and revenue pressures, drive longer term profit growth, and provide the capacity to invest in value enhancing projects, including the recruitment of c6,000 new employees to support network deployment and customer service.

[a] Items presented as adjusted are stated before specific items. See page 288 for details.

Summarised income statement

Year ended 31 March Before specific items	2018 £m	2017 £m	2016 £m
Revenue	**23,746**	**24,082**	**18,879**
Operating costs[a]	**(16,241)**	(16,437)	(12,420)
EBITDA	**7,505**	**7,645**	**6,459**
Depreciation and amortisation	**(3,514)**	(3,510)	(2,631)
Operating profit	**3,991**	**4,135**	**3,828**
Net finance expense	**(546)**	(594)	(483)
Associates and joint ventures	**(1)**	(9)	6
Profit before taxation	**3,444**	**3,532**	**3,351**
Taxation	**(671)**	**(663)**	**(607)**
Profit for the year	**2,773**	**2,869**	**2,744**

Revenue

Reported revenue, which includes specific items, was down 1%. Adjusted revenue was also down 1% at £23,746m. Both of these decreases were driven by challenges in our enterprise businesses, particularly in Global Services where ongoing challenging market conditions and lower IP Exchange volumes and equipment sales, weighed on our results.

We had an £87m favourable impact from foreign exchange movements and a £157m reduction in transit revenue. Excluding these, underlying revenue excluding transit was down 1.0% (2016/17: down 0.2%) which is below our expectation of being broadly flat in the current year.

BT Consumer revenue was up 3% due to strong growth in mobile, broadband, TV and sport. EE revenue was up 4% due to strong postpaid and fixed broadband revenue growth. Openreach revenue was flat with growth in fibre broadband offset by a reduction in copper line base and regulatory price cuts. Revenue was down 5% in Wholesale and Ventures as a result of market decline in legacy products partially offset by growth in Ventures. Business and Public Sector underlying revenue excluding transit was down 4% due to the decline in the fixed voice market and lower equipment sales, partially offset by continued growth in mobile and networking. Global Services' underlying revenue excluding transit was down 8% reflecting ongoing challenging market conditions, lower IP exchange volumes and equipment sales in line with our strategy to reduce low margin business.

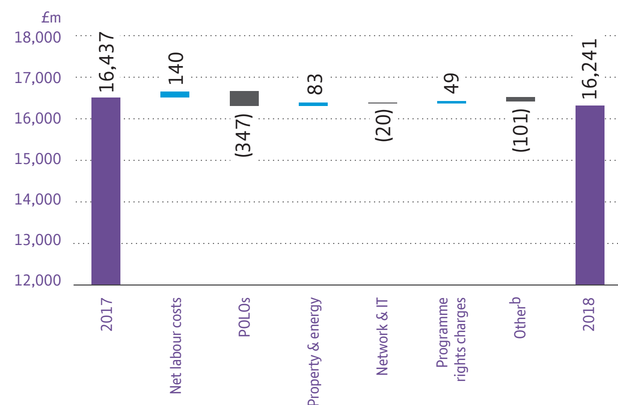
You can see a full breakdown of reported revenue by major product and service category in note 4 to the consolidated financial statements.

Operating costs

Reported operating costs were down 3% while adjusted operating costs before depreciation and amortisation decreased 1%.

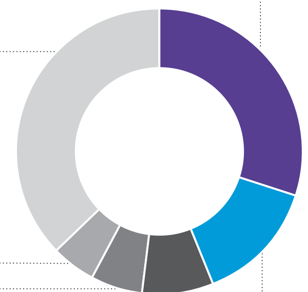
Our adjusted operating costs before depreciation and amortisation were £16,241m, down £196m (2016/17: up £4,017m) driven by decline in volumes and cost savings partially offset by increased investment in mobile devices, customer experience, higher business rates and pension costs. The increase in 2016/17 reflects the impact of the acquisition of EE.

Operating costs before depreciation, amortisation and specific items
Year ended 31 March



Net labour costs increased by 3% due to pay inflation, a higher pension operating charge and investment in right-shoring, partially offset by efficiencies and lower leavers' costs. Payments to telecommunications operators (POLOs) were down 13% due to lower IP exchange volumes. Property and energy costs were up 7% due to higher business rates. Network, operating and IT costs were down 2% and programme rights charges increased by £49m to £763m, primarily reflecting our investment in BT Sport. For the group, other operating costs were down £101m or 2%, primarily reflecting lower revenue in our business and wholesale activities.

2017/18 operating costs[c]



You can see a detailed breakdown of our operating costs in note 5 to the consolidated financial statements.

[a] Excluding depreciation and amortisation.
[b] Includes all other movements in costs.
[c] Excluding depreciation, amortisation and specific items.

EBITDA
Adjusted EBITDA, which is before specific items, was down 2% at £7.5bn, which is in line with our 2017/18 outlook. This reflects the decline in volumes in our business and wholesale activities, higher business rates and pension costs, partly offset by cost savings.

You can see further details for EBITDA for the customer-facing units on pages 72 to 117.

Specific items
As we've explained on page 118, in this performance review we primarily explain our results before specific items reflecting the way we measure the sustainable performance of our business.

The table below outlines items we've treated as specific items:

Year to 31 March	2018 £m	2017 £m	2016 £m
Specific revenue			
Italian business investigation	–	22	–
Regulatory matters	23	(2)	(203)
EE fair value adjustment	–	–	70
Specific revenue	23	20	(133)
Specific operating costs			
EE acquisition warranty claims	225	–	–
Restructuring charges	241	–	–
EE acquisition and integration costs[a]	46	215	116
Property rationalisation costs	28	–	29
Regulatory matters	26	481	203
Italian business investigation	22	238	–
Out of period irrecoverable VAT	–	30	–
Profit on disposal of businesses	(1)	(16)	–
Specific operating costs	587	948	348
Specific net finance expense	218	210	229
Tax credit	(87)	(217)	(166)
Net specific items charged after tax	741	961	278

[a] 2017/18 and 2016/17 costs wholly relate to integration.

This year, specific items resulted in a net charge after tax of £741m (2016/17: £961m).

During the year, we reached full and final settlements with Deutsche Telekom and Orange in respect of any warranty claims arising under the 2015 EE acquisition agreement, arising from the issues previously announced regarding our operations in Italy. We recognised a £225m (2016/17: £nil) specific item charge for these full and final settlements. We also recognised £22m for investigation costs into our Italian business.

We've incurred restructuring charges of £241m (2016/17: £nil) in relation to our cost transformation programme.

We've reassessed our regulatory risk provision in light of recent regulatory decisions by Ofcom. Accordingly we have recognised £49m (2016/17: £479m) of net costs in relation to regulatory matters.

We incurred £46m of EE integration costs (2016/17: £215m). The costs include EE integration related restructuring and leaver costs in the year.

In addition to the above, we also treated a number of other items as specific, such as the net interest expense on pensions of £218m (2016/17: £209m). The increase from 2016/17 mainly reflects an increase in the BT Pension Scheme deficit over the year to 31 March 2017 partly offset by a lower discount rate as at 31 March 2017.

The tax credit on specific items was £87m (2016/17: £217m).

You can see details of all revenue and costs that we have treated as specific items in the income statement in the last three years in note 8 to the consolidated financial statements.

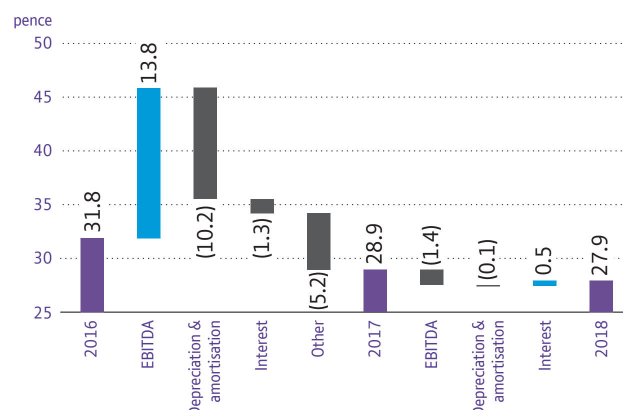
Profit before tax
Reported profit before tax (which includes specific items) was up 11% to £2,616m while adjusted profit before tax was down 2% at £3,444m.

We discuss depreciation, net finance expense and tax in later sections of this performance review.

Earnings per share
Reported earnings per share, which includes specific items, was 20.5p, up 7%, while adjusted earnings per share decreased 3% to 27.9p.

Adjusted earnings per share is one of our key performance indicators (see pages 24 and 25) and has decreased by 12% over the past two years. The graph below shows the key drivers of this decrease.

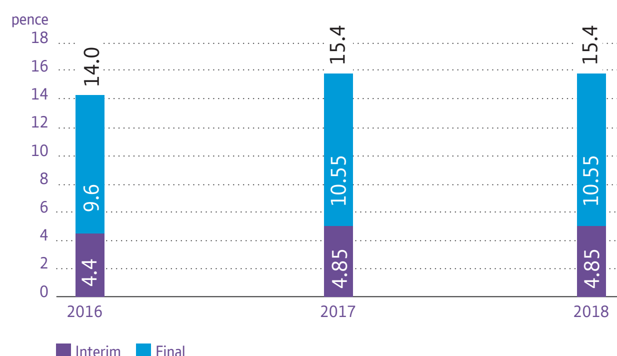
Adjusted earnings per share
Year ended 31 March



Dividends

The Board is proposing a final dividend to shareholders of 10.55p. This brings the full year dividend to 15.4p, unchanged from the prior year, and compares with an increase in the 2016/17 full year dividend of 10%. It will be paid, subject to shareholder approval, on 3 September 2018 to shareholders on the register on 10 August 2018.

Dividends per share
Year ended 31 March



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

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

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

From next year, 2018/19, the interim dividend per share will be fixed at 30% of the prior year's full year dividend per share.

We've set out our dividend expectations for 2018/19 in our Outlook on page 119.

Cash flow

We generated a net cash inflow from operating activities of £4,927m and normalised free cash flow of £2,973m, up £191m or 7%, which is above our outlook for the year, mainly due to working capital phasing.

Free cash flow

Normalised free cash flow increased 7% to £2,973m, mainly due to favourable working capital phasing.

The net cash cost of specific items was £828m (2016/17: £205m). This included payments related to the settlement of warranty claims arising from the 2015 EE acquisition agreement of £225m (2016/17: £nil), regulatory payments of £267m (2016/17: £3m) primarily reflecting payments in respect of Deemed Consent, restructuring payments of £193m (2016/17: £51m) and EE integration cost payments of £54m (2016/17: £72m).

Summarised cash flow statement

Year ended 31 March Before specific items	2018 £m	2017 £m	2016 £m
EBITDA	7,505	7,645	6,459
Capital expenditure[a]	(3,341)	(3,119)	(2,431)
Net interest	(548)	(622)	(541)
Taxation[b]	(582)	(661)	(459)
Working capital movements	(170)	(382)	(12)
Other non-cash and non-current liabilities movements	109	(79)	82
Normalised free cash flow	**2,973**	**2,782**	**3,098**
Cash tax benefit of pension deficit payments	109	110	203
Payments in respect of acquisition of spectrum	(325)	–	–
Specific items	(828)	(205)	(232)
Free cash flow	**1,929**	**2,687**	**3,069**
Pension deficit payments	(872)	(274)	(880)
Dividends	(1,523)	(1,435)	(1,075)
Disposals and acquisitions	(23)	51	(3,379)
Share buyback programme	(221)	(206)	(315)
Proceeds from issue of own shares	53	70	90
(Increase) reduction in net debt from cash flows	(657)	893	(2,490)
Net debt at 1 April	(8,932)	(9,838)	(5,113)
(Increase) reduction in net debt from cash flows	(657)	893	(2,490)
Non-cash movements	(38)	13	(2,235)
Net debt at 31 March	**(9,627)**	**(8,932)**	**(9,838)**

[a] Net of government grants.
[b] Excluding cash tax benefit of pension deficit payments.

Free cash flow, which includes specific item outflows of £828m (2016/17: £205m), payments in respect of the acquisition of spectrum of £325m (2016/17: £nil) and a £109m (2016/17: £110m) tax benefit from pension deficit payments, was £1,929m (2016/17: £2,687m). We made pension deficit payments of £872m (2016/17: £274m) and paid dividends to our shareholders of £1,523m (2016/17: £1,435m).

We spent £221m (2016/17: £206m) on our share buyback programme to help counteract the dilutive effect of our all-employee share option plans maturing. This includes the £200m spent following a sell-down by Orange of its BT shares which we took advantage of given the current market conditions and the opportunity to purchase a significant number of shares in a single transaction. Exercises of share options generated proceeds of £53m (2016/17: £70m).

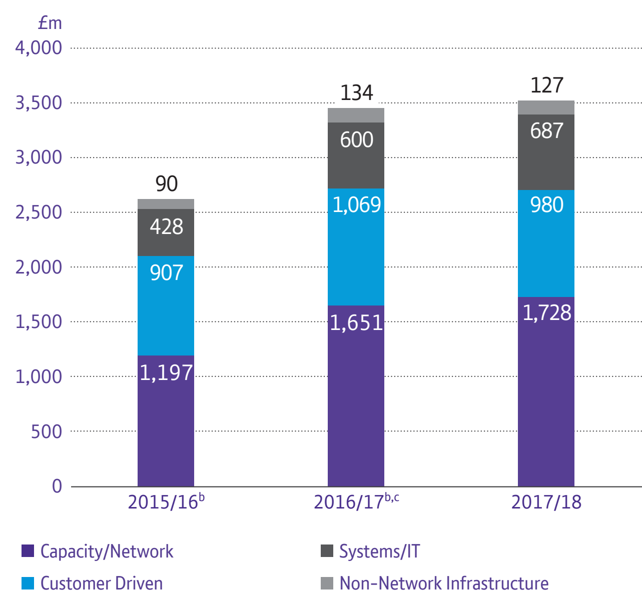
You can see a reconciliation to normalised free cash flow from the net cash inflow from operating activities, the most directly comparable IFRS measure, on page 289.

Capital expenditure

We continue to invest in our strategy of network leadership, across both fixed and mobile networks, to deliver differentiated customer experience and transform our cost base.

For the year, our capital expenditure, inclusive of net grant deferral was £3,522m (2016/17: £3,454m, 2015/16: £2,622m). The table below shows the split of our investments by major category.

Capital expenditure[a]
Year ended 31 March



[a] Capacity/network includes BDUK grant funding deferral of 2017/18: £112m, 2016/17: £188m and 2015/16: £229m.
[b] The comparative information of the current period results has been revised to reflect the latest internal categorisation.
[c] 2016/17 is the first full year including EE Ltd.

In recent years we've prioritised our capital expenditure to underpin our strategy, and to expand coverage and capacity whilst enhancing the speed and resilience of both our fixed access network and our mobile network. Key investments in 2017/18 include:

Capacity/network investment, proactive investment in our integrated network to:

- improve the coverage and reliability of our superfast broadband network, including extending the reach of superfast broadband to rural areas under the BDUK programme. We've now passed more than 27.5m homes and businesses representing over three-quarters of UK premises
- increase the deployment of ultrafast broadband, across both FTTP and Gfast technologies, with over 1.5m of ultrafast homes to date
- enhance and expand our mobile network coverage, speed and capacity, including the delivery of the ESN contract
- deliver a truly integrated network that supports converged products and services.

Customer driven investment that directly generates revenue from:

- continued development of customer contract-specific infrastructure for our UK and global clients
- deployment of Ethernet and broadband connections for homes and businesses, including reduction in the existing workstacks.

Systems/IT investments that develop:

- differentiated customer experience
- new products and services
- transformation initiatives to drive cost savings.

Non-network infrastructure that covers, for example:

- investment in our property estate
- power and cooling investments to drive energy savings
- specialist vehicle replacement.

Capital expenditure was £3,522m (2016/17: £3,454m). This consists of gross expenditure of £3,596m (2016/17: £3,426m) which has been reduced by net grant funding of £74m (2016/17: £28m increase in net grant deferral). We have recognised gross grant funding of £168m (2016/17: £160m) in line with network build, re-invested grant funding of £18m (2016/17: £nil) and also deferred £112m (2016/17: £188m) of the total grant funding to reflect an increase in the base case take-up assumption to 41% following our review of the level of customer take-up. The increase in take-up assumption shows the high demand on our fibre network driven by customers taking advantage of faster speeds to consume more data. Grant funding deferral repaid throughout the year was £4m, giving a balance at 31 March 2018 of £536m (Q4 2016/17: £446m).

Of the total group capital expenditure, £90m (2016/17: £69m) is related to the integration of EE. Additionally, £154m (2016/17: £272m, 2015/16: £248m) was invested outside of the UK. Capital expenditure contracted but not yet incurred was £993m at 31 March 2018 (2016/17: £889m, 2015/16: £922m).

Depreciation and amortisation

Depreciation and amortisation is flat at £3,514m (2016/17: £3,510m, 2015/16: £2,631m).

Net debt

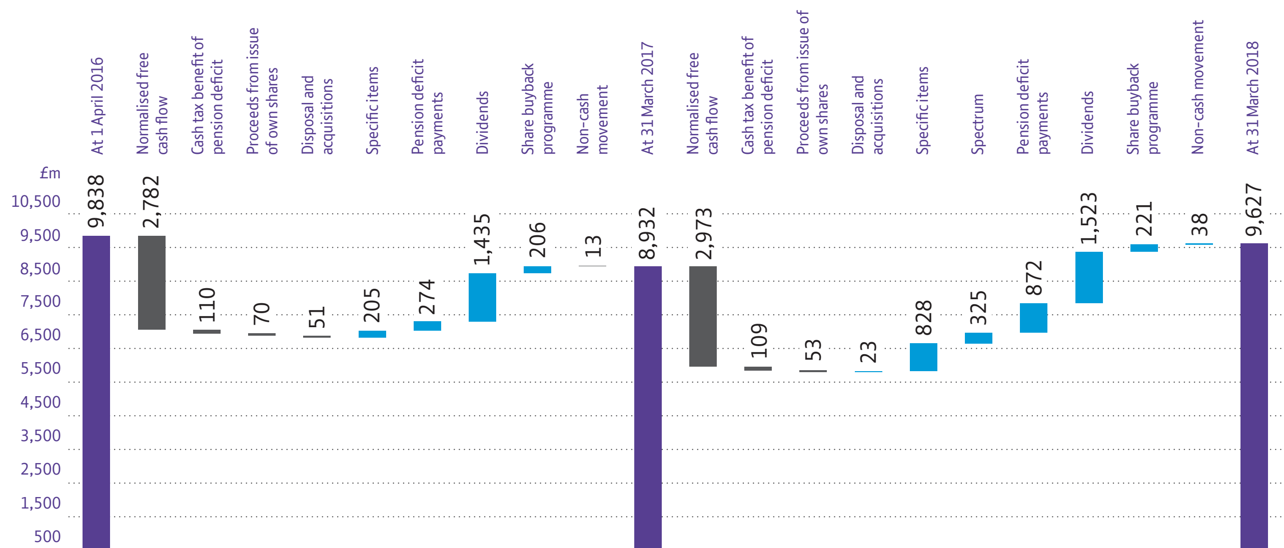
Net debt increased by £695m to £9,627m, reflecting our investments for the future of our business including research and development, sports and TV content, supporting our pension funds and funding our share buyback programme. We have also paid progressive dividends to our shareholders.

Gross debt, translated at swap rates and excluding fair value adjustments, at 31 March 2018 was £13,175m. This comprises term debt of £12,401m, finance leases of £219m and other loans of £555m.

Debt maturities in June 2017, December 2017 and January 2018 resulted in a total cash outflow of £1,399m.

We issued bonds of £2,025m in June 2017 and £1,728m in November 2017 to generate funding for general corporate purpose. These issuances have resulted in an increase in our current investments and cash and cash equivalents to £3,550m.

The table below shows the key movements in net debt over the past two years.

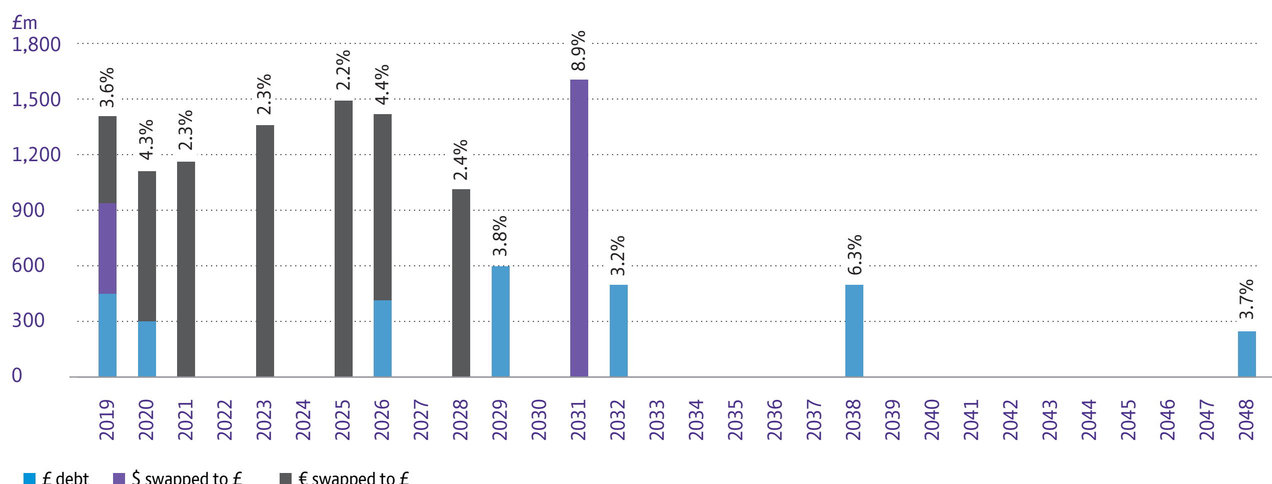


Financing and debt maturity

The main source of our cash inflow in recent years has been the cash generated from our operations.

During the year we cancelled a £1.5bn committed facility. This facility provided us with a bridge to capital market issuance and was cancelled in June 2017 when we issued Euro bonds in the debt capital markets. Our £2.1bn facility with 14 high quality syndicate banks (£150m each) remains undrawn at 31 March 2018. This facility matures in September 2021.

We have term debt of £1,406m, at swap rates, and other debt of £575m maturing in 2018/19.



Net finance expense

Reported net finance expense has decreased £40m to £764m. Adjusted net finance expense of £546m also decreased by £48m.

We've shown below an overview of our average gross debt, investments and cash balances, and net debt and the related weighted average interest rates over the past three years. The weighted average interest rate on net debt reduced from 5.9% to 5.8% as the new debt issuances are at a lower rate than the existing debt.

You can see a reconciliation of net finance expense to net interest cash outflow in note 26 to the consolidated financial statements.

Year ended 31 March Before specific items	**2018** **£m**	2017 £m	2016 £m
Average gross debt	**12,462**	12,217	9,030
Weighted average interest rate on gross debt	**4.2%**	4.6%	5.4%
Average investments and cash balances	**3,528**	2,817	2,616
Weighted average interest rate on investments	**0.2%**	0.3%	0.4%
Average net debt	**8,934**	9,400	6,414
Weighted average interest rate on net debt[a]	**5.8%**	5.9%	7.4%

[a] Excludes interest relating to unwinding of discount on provisions and derivatives not in a designated hedge relationship.

Taxation

Our effective tax rate before specific items was 19.5% (2016/17: 18.8%). We paid income taxes of £473m (2016/17: £551m).

Our tax contribution

Our tax strategy sits at the heart of our business responsibility agenda. It ensures that we pay our fair share of taxes back into the societies in which we operate, and that we conduct our tax affairs ethically and with integrity. It is published at btplc.com/Purposefulbusiness/Ourapproach/Ourpolicies/BTTaxReport2018.pdf.

We are proud to be a major contributor of taxes to the UK economy. In 2017 we bore UK taxes of £1,065m and collected £2,956m of taxes. The One Hundred Group 2017 Total Tax Contribution Survey ranked us as the 5th highest contributor in the UK.

We paid UK corporation tax of £374m. We benefited from £111m of EE's historical tax losses (2016/17: £117m) and £217m from tax deductions associated with employee pension and share schemes (2016/17: £110m).

Tax expense

Our tax expense recognised in the income statement before specific items was £671m (2016/17: £663m). In addition we recognised a £345m tax expense (2016/17: £445m credit) in the statement of comprehensive income, principally in relation to our pension scheme.

We expect our income statement effective tax rate before specific items to be around the UK rate of corporation tax, as the majority of our business occurs in the UK. In the current year, our rate has been increased by the impact of US tax reform.

The UK tax rate will fall from 19% to 17% on 1 April 2020, which should reduce our expected effective tax rate. Recognition of further deferred tax assets on historical overseas tax losses would also reduce our future rate. Changes to our estimates of uncertain tax positions may increase or reduce our future rate.

Year ended 31 March Before specific items	2018 %	2017 %	2016 %
Tax at UK statutory rate	**19.0**	20.0	20.0
Non-UK results taxed at different rates	**0.2**	0.3	(0.2)
Net permanent differences	**0.6**	0.7	0.3
	19.8	21.0	20.1
Changes to prior year estimates	**(0.1)**	(1.1)	(2.5)
Deferred tax accounting for non-UK losses	**(0.2)**	(1.1)	0.5
Effective tax rate	**19.5**	18.8	18.1

We have booked a tax benefit of £37m in respect of UK patent incentives (2016/17: £39m).

Key tax risks

Our key uncertainties are whether EE's tax losses will be available to us, whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes.

Additionally we have extensive and long standing UK operations that necessarily require the use of estimates in calculating our tax liabilities. We routinely work with HMRC to validate these estimates.

Tax losses

We have an asset on our balance sheet of £183m relating to tax losses. This relates mainly to historical tax losses acquired with EE. We expect to be able to use this against future profits of EE.

In addition we have £4.0bn of income tax losses that we've not given any value to on our balance sheet. We might be able to use these losses to offset future profits, however we currently do not consider this probable. We also have £16.9bn of UK capital losses, which we have no expectation of being able to use.

We've given more details in note 9 to the consolidated financial statements.

Summarised balance sheet

Our balance sheet reflects our significant investment in the network infrastructure assets that are the foundation of our business, as well as the working capital with which we manage our business day by day. It also reflects the longer-term strategy with which we finance our investment, and our obligation to the pension funds.

At 31 March	2018 £m	2017 £m	Movement £m
Property, plant & equipment, software and telecommunications licences	**21,283**	20,884	399
Goodwill and other intangible assets	**10,164**	10,643	(479)
Other non-current and current assets	**2,350**	3,067	(717)
Trade and other receivables	**4,331**	4,195	136
Investments, cash and cash equivalents	**3,550**	2,048	1,502
Total assets[a]	**41,678**	**40,837**	**841**
Loans and other borrowings	**(14,275)**	(12,713)	(1,562)
Trade and other payables	**(7,168)**	(7,437)	269
Other current and non-current liabilities	**(2,246)**	(2,398)	152
Provisions	**(1,055)**	(1,161)	106
Deferred tax liability	**(1,340)**	(1,240)	(100)
Pensions, net of deferred tax	**(5,290)**	(7,553)	2,263
Total liabilities	**(31,374)**	**(32,502)**	**1,128**
Total equity	**10,304**	**8,335**	**1,969**

[a] Excluding deferred tax asset relating to BT's defined benefit pension schemes.

Our core fixed and mobile network infrastructure is included within property, plant and equipment, software and telecommunications licences. These assets were held at a net book value of £21.3bn at 31 March 2018. The net increase of £399m in the year primarily reflects capital expenditure of £3,522m exceeding the related depreciation and amortisation charge of £3,134m.

Goodwill and other acquisition-related intangible assets decreased by £479m, primarily reflecting the amortisation of customer relationships.

We review the recoverable amounts of goodwill annually across our cash generating units which hold goodwill, which are BT Consumer, EE, Business and Public Sector, Global Services, and Wholesale and Ventures, and are satisfied that these support the carrying value of goodwill (see note 12 to the consolidated financial statements).

Other non-current and current assets and liabilities relate primarily to our financial instruments, which we've described in note 27 to the consolidated financial statements.

Trade and other receivables increased by £136m to £4,331m while trade and other payables of £7,168m were £269m lower. Investments, cash and cash equivalents, loans and other borrowings are reconciled to net debt of £9,627m in note 25 to the consolidated financial statements. We've discussed net debt on page 125.

Provisions decreased by £106m to £1,055m mainly due to a decrease in regulatory provisions due to Deemed Consent payments made during the year. We have a significant property portfolio which includes both office buildings and former telephone exchanges (see page 37). Property provisions, which mainly comprise onerous lease provisions, amounted to £294m. There are also asset retirement obligations of £71m relating to leased mobile sites forming part of the EE network. You can find more information about these provisions in note 19 to the consolidated financial statements.

We've shown deferred tax movements in note 9 to the consolidated financial statements. Pensions, net of deferred tax, decreased by £2.3bn to £5.3bn and are discussed below.

Pensions

Overview

We provide a number of retirement plans for our employees:

- The BT Pension Scheme (BTPS), a defined benefit plan in the UK, is the largest of these plans. Although closed to new members since 2001, at 31 March 2018 the BTPS had around 30,000 active members, 202,500 pensioners and 60,500 deferred members. In March 2018, BT announced the closure of Sections B and C of the BTPS to future benefit accrual (which represents over 99% of the BTPS active membership), having reached agreement with the relevant Unions. BT currently expects to close the BTPS to future accrual from 30 June 2018 when employees will join the BT Retirement Savings Scheme (BTRSS), for future pension accrual.
- The BTRSS is a contract-based, defined contribution arrangement operated by Standard Life. This is the current arrangement for UK employees who joined BT after 1 April 2001. It has around 35,000 active members. As part of the recent review of pension benefits, BT will increase its standard maximum contribution rate to 10% for employees building up benefits in the BTRSS, taking effect from 1 June 2018.
- EE operates the EE Pension Scheme (EEPS), which has a defined benefit section that is closed to future accrual and a defined contribution section which has around 11,500 active members.
- We also maintain retirement arrangements around the world with a focus on these being appropriate for the local market and culture.

The BTPS, BTRSS and EEPS are not controlled by the Board. The BTPS and EEPS are managed by separate and independent Trustee bodies while savings in the BTRSS are managed directly by members.

Details of the governance of the BTPS, its financial position and the performance of its investments are available in the BTPS Annual Report published by the Trustee in October 2017, on the BTPS Trustee website (btpensions.net).

We've given more information on our pension arrangements, on the funding and accounting valuations and the recent review of pensions benefits in note 20 to the consolidated financial statements.

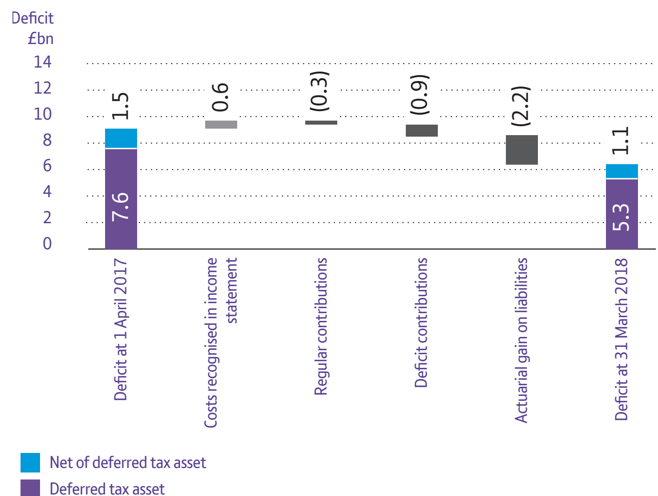
BTPS funding valuation and future funding obligations
The funding of the BTPS is subject to legal agreement between BT and the Trustee of the BTPS and is determined at the conclusion of each triennial valuation. The most recent triennial funding valuation at 30 June 2017 and the associated deficit contribution plan was agreed with the Trustee in May 2018.

At 30 June 2017, the market value of assets was £49.1bn and the funding deficit was £11.3bn. There are a wide range of assumptions that could be adopted for measuring pension liabilities. Legislation requires that this deficit is based on a prudent view – for example, assuming a lower future investment return than might be expected in practice.

The deficit will be met over a 13 year period, maintaining the remaining period of the previous recovery plan. The deficit contributions have three components:
- Payments within the three years to 31 March 2020 totalling £2.1bn, in line with the amount due under the previous recovery plan. £850m of this was paid in March 2018 and the remaining £1,250m is to be paid by 30 June 2019.
- A further £2.0bn contribution, due to be funded from the proceeds of the issuance of bonds which will be held by the BTPS. The bonds will be issued as soon as practicable.
- For the 10 years from 1 April 2020 to 31 March 2030, annual payments of around £900m.

Accounting position under IAS 19
The accounting deficit, net of tax, decreased over the year from £7.6bn to £5.3bn. The movements in the deficit for the group's defined benefit plans are shown below.

Key movements in IAS 19 deficit



The actual investment return in the year to 31 March 2018 of around 2.4% was broadly in line with the discount rate assumption at 31 March 2017.

The actuarial gain on liabilities in 2017/18 was largely driven by an update to the discount rate model to better reflect yields on corporate bonds, reducing the liabilities by £2.1bn. Further detail is set out on page 241.

Contractual obligations and commitments

We've shown in the table below our principal undiscounted contractual financial obligations and commitments at 31 March 2018. You can see further details on these items in notes 20, 25 and 30 to the consolidated financial statements.

At 31 March 2018	**Total £m**	Less than 1 year £m	Between 1 and 3 years £m	Between 3 and 5 years £m	More than 5 years £m
Loans and other borrowings[a]	**13,983**	2,254	2,492	1,469	7,768
Finance lease obligations	**219**	18	32	38	131
Operating lease obligations	**6,597**	600	1,063	949	3,985
Capital commitments	**993**	977	15	1	–
Other commitments	**362**	213	141	8	–
Device purchase commitments	**262**	260	2	–	–
Programme rights commitments	**2,823**	–	663	1,703	457
Pension deficit obligations	**12,374**	2,025	2,191	1,808	6,350
Total	**37,613**	6,347	6,599	5,976	18,691

[a] Excludes fair value adjustments.

We have unused committed borrowing facilities totalling £2.1bn. We expect that these resources and our future cash generation will allow us to settle our obligations as they fall due.

Adoption of new accounting standards

IFRS 15 'Revenue from Contracts with Customers'

We adopted this standard on a modified retrospective basis. This means that on adoption we will recognise the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 1 April 2018, ie the date of initial application. We are in the process of finalising the impact on transition at 1 April 2018 but we have estimated this will produce a cumulative increase in retained earnings of between £1.1bn and £1.5bn before tax. The corresponding impact will primarily be recorded as a contract asset and will lead to additional one-off cash tax payments equally split between 2018/19 and 2019/20.

IFRS 16 'Leases'

IFRS 16 'Leases' will be effective for BT from 1 April 2019. We are planning to adopt IFRS 16 on a modified retrospective basis and the group will recognise the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 1 April 2019. We are still in the process of quantifying the implications of this standard. However, our operating lease obligations set out in the table opposite, which are currently off balance sheet, will be valued in accordance with the requirements of IFRS 16 and recorded on balance sheet after adoption, along with a corresponding right of use asset.

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' will be adopted concurrently with IFRS 15 and on the same basis. With the exception of the impact of recording expected lifetime losses on recognised IFRS 15 contract assets we do not expect the standard to have a material impact on our results. The effect of expected lifetime losses after IFRS 15 adoption has been included in the cumulative impact on retained earnings in the IFRS 15 section above.

More detail over our approach to these new standards is outlined in note 1 to the consolidated financial statements.