

Financial results

Results for the half year to 30 September 2019

BT Group plc

31 October 2019



BT Group plc (BT.L) today announced its results for the half year to 30 September 2019.

Key strategic developments:

- Launched a host of new products for consumer and business segments, including the new Halo converged product plans and BT Mobile 5G
- Introduced a range of new service initiatives including bringing the BT brand to the high street in over 600 EE/BT dual-branded stores, and to answer 100% of customer calls in the UK & Ireland from January 2020
- Continued to make progress on the BT modernisation agenda, including delivering over £1.1bn transformation benefits, announcing the first locations in our *Better Workplace Programme*, and disposal of BT Fleet Solutions
- Outlined our *Skills for Tomorrow* programme to provide digital skills training for 10m UK children, families and businesses

Operational:

- 5G network live in over 20 cities and large towns; 5G smartphone plans now available on both EE and BT brands
- Openreach announced the launch of new FTTP 1Gbps and 550Mbps products. FTTP rollout at c.23k premises passed per week; 4.2m ultrafast (FTTP and Gfast) premises passed to date; currently announced plans to build FTTP in 103 locations
- Consumer fixed ARPC £38.5, broadly flat year on year; postpaid mobile ARPC £20.8, down 5.5% year on year due to impact of regulation and continued trend towards SIM-only; RGUs per address up to 2.38
- Postpaid mobile churn remains low at 1.2% in Q2 despite impact of auto switching; fixed churn at 1.3% in Q2 down from 1.6% in prior year

Financial:

- Reported revenue £11,467m, down 1%¹ mainly reflecting the impact of regulation, declines in legacy products, and strategically reducing low margin business
- Reported profit before tax £1,333m, broadly flat year on year; adjusted² EBITDA £3,923m, down 3%¹ due to lower revenues, increased spectrum fees, content costs and investment to improve competitive positioning partly offset by cost savings from transformation programmes
- Net cash inflow from operating activities of £2,173m; normalised free cash flow² of £604m, down 38% due to increased capital expenditure, higher interest and tax payments, partially offset by one-off cash flows
- Capital expenditure £1,882m. Up £225m excluding BDUK grant funding deferral, driven by increased network investment
- Net debt² increased primarily due to implementation of IFRS 16, £6.1bn, and net business cash outflows, £1.2bn
- Interim dividend of 4.62p per share; 30% of last year's full-year dividend of 15.4p per share
- Overall financial outlook maintained

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

"BT delivered results in line with our expectations for the second quarter and first half of the year, and we remain on track to meet our outlook for the full year.

"We've invested to strengthen our competitive position. We've accelerated our 5G and FTTP rollouts, introduced an enhanced range of product and service initiatives for both consumer and business segments, and announced price and technology commitments to deliver fair, predictable and competitive pricing for customers.

"Openreach is significantly accelerating its pace of FTTP build and is now passing a home or business every 26 seconds. Openreach announced a further 29 locations in its build plan to reach 4m premises by March 2021, and we continue to make positive progress with Government and Ofcom on the enablers to stimulate further investment in full fibre.

"We continue to make progress on the BT modernisation agenda, delivering over £1.1bn in annualised cost savings, and announcing locations in our Better Workplace Programme."

Half year to 30 September	2019 (IFRS 16)	2018 (IAS 17)	2018 (IFRS 16 pro forma ²)	Change ¹
	£m	£m	£m	%
Reported measures				
Revenue	11,467	11,588		(1)
Profit before tax	1,333	1,340		n/m
Profit after tax	1,068	1,052		n/m
Basic earnings per share	10.8p	10.6p		2
Net cash inflow from operating activities	2,173	754		188
Interim dividend	4.62p	4.62p		-
Capital expenditure	1,882	1,833		3
Adjusted measures				
Adjusted ² revenue	11,413	11,624	11,624	(2)
Adjusted ² EBITDA	3,923	3,675	4,038	(3)
Normalised free cash flow ²	604	974	974	(38)
Net debt ²	18,347	11,895		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 2

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

Customer-facing unit results for the half year to 30 September 2019

Half year to 30 September	Adjusted ¹ revenue			Adjusted ¹ EBITDA			Normalised free cash flow ¹		
	2019 (IFRS 16)	2018 ² (IFRS 16 pro forma ¹)	Change	2019 (IFRS 16)	2018 ² (IFRS 16 pro forma ¹)	Change	2019 (IFRS 16)	2018 ² (IFRS 16 pro forma ¹)	Change
	£m	£m	%	£m	£m	%	£m	£m	%
Consumer	5,194	5,224	(1)	1,180	1,237	(5)	534	617	(13)
Enterprise	3,055	3,221	(5)	968	1,003	(3)	630	564	12
Global	2,196	2,332	(6)	304	255	19	40	(74)	154
Openreach	2,536	2,548	-	1,417	1,478	(4)	197	448	(56)
Other	-	2	n/m	54	65	(17)	(797)	(581)	(37)
Intra-group items	(1,568)	(1,703)	8	-	-	-	-	-	-
Total	11,413	11,624	(2)	3,923	4,038	(3)	604	974	(38)
Second quarter to 30 September									
Consumer	2,644	2,654	-	592	617	(4)			
Enterprise	1,539	1,633	(6)	497	517	(4)			
Global	1,111	1,185	(6)	164	136	21			
Openreach	1,268	1,293	(2)	700	761	(8)			
Other	(1)	1	n/m	12	27	(56)			
Intra-group items	(781)	(858)	9	-	-	-			
Total	5,780	5,908	(2)	1,965	2,058	(5)	281	467	(40)

¹ See Glossary below

² Segmental results as reported in the Q2 2018/19 results release have been restated to reflect i) the bringing together of our Business and Public Sector and Wholesale and Ventures customer-facing units into a single customer-facing unit, Enterprise, on 1 October 2018; the transfer of our Northern Ireland Networks business from Enterprise to Openreach and reclassification of certain internal revenues generated by our Ventures businesses as segmental revenue rather than internal recovery of cost; (see press release on 17 January 2019) and ii) 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)

n/m = not meaningful

Glossary of alternative performance measures

Adjusted	Before specific items
EBITDA	Earnings before interest, tax, depreciation and amortisation
Adjusted EBITDA	EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense
Free cash flow	Net cash inflow from operating activities after 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. 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 <i>Leases</i> , which replaced IAS 17 <i>Leases</i> . 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 9 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 25

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 32. Results on an adjusted basis are presented before specific items. Reconciliations from the most directly comparable IFRS measures are in Additional Information on pages 32 to 34.

Overview of the half year and second quarter to 30 September 2019

STRATEGIC AND OPERATIONAL UPDATE

We continue to execute against our three strategic pillars: delivering a differentiated customer experience; building the best converged network; and creating a more simplified, lean and agile business. Our strategy positions us well in the challenging market conditions which persist in the UK, in which customers are paying less for telecoms connectivity whilst consuming exponentially more data.

During the quarter we announced the launch of our latest converged product plans, Halo, for both homes and businesses, offering the best connection and experience with unlimited data on mobile and broadband, access to 5G, and inclusive Home Tech Expert support for consumers.

We announced the launch of our first consumer Voice-over-IP (VoIP) product, Digital Voice, for November 2019, alongside new retail FTTP products. These are significant milestones in our convergence journey, capitalising on our strong brands, the best network positions, and unrivalled sales and service capabilities.

We announced the launch of *Skills for Tomorrow*, a new digital skills programme intended to tackle the UK's digital skills gap. The programme will help 10m individuals get the skills they need by 2025 via a range of specialised initiatives for teachers; young people; older, more vulnerable and digitally excluded people; businesses; and families.

Building on BT's England FA partnership, BT is now the lead partner to all UK home nations Football Associations, partnering with the Scottish FA, the FA of Wales, and the Irish FA. Through these partnerships, BT is connecting over 200 grassroots football clubs across the UK, and bringing digital skills to players, volunteers and communities.

Differentiated customer experience

Our customers' overall perception of BT improved for the thirteenth successive quarter with Group NPS¹ increasing by 0.8 points when compared to the prior year baseline.

Service

In the latest available results, customer complaints to Ofcom were reduced by 35% for BT consumer broadband on a year on year basis. Over the same period, complaints to Ofcom about EE mobile were reduced by 33%, and are equal to the lowest rate per 100,000 customers of any UK mobile network operator.

Consumer continues to invest to improve customer experience. In October, we announced further measures to create the UK's most personal and local customer service. We have brought forward, to January 2020, our commitment to answer all customer calls in the UK and Ireland, a year ahead of original schedule, and we're bringing the BT brand, sales and services to the high street across the UK with over 600 dual-branded BT/EE stores.

We also launched a new team of 900 Home Tech Experts who will help BT customers to install or fix the latest technology in their homes, and we are rolling out specialist Tech Experts who will carry out personalised set-up of products and services for small business customers.

Total Openreach customer fault volumes were 1.6% lower in the half year when compared to the same period last year, despite higher than average summer rainfall. We took steps to increase capacity and bring customers back into service as quickly as possible with copper and fibre on time repair at 86.4%, an improvement of 2.2 percentage points on H1 last year. The level of missed appointments, where Openreach was at fault, was 1.4% for H1, compared to 1.8% during H1 2018/19. Q1 was a record low.

Openreach has achieved all of Ofcom's 42 quality of service levels during H1 on voice and broadband services, including FTTC.

Digital

My BT registrations are up by 37% to 3.8m and MyEE registrations are up 8% to 12.3m when compared to Q2 last year. Over half of the Plusnet mobile base has installed the Plusnet mobile app in the 12 months since launch. Registrations for the BT Business app have doubled to 85,000 when compared to the same point last year. In addition, we now have nearly 3.7m customers using our Call Protect product, preventing over a quarter of a billion unwanted calls since launch in January 2017.

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

Products

Our converged products remain popular with customers. Around a quarter of our BT broadband customers now enjoy the benefits of BT Plus. For business customers, 4G Assure accounts for just over half of new SME broadband sales. Customers report higher levels of NPS for these products when compared to standard broadband.

In October, we announced that our converged products will be further improved with the introduction of Halo product plans, offering the best connection and experience with unlimited data on mobile and broadband, access to 5G, and inclusive Home Tech Expert support for consumers.

Also in October we announced the introduction of the Digital Voice network, which will provide customers with high definition voice and advanced home phone capabilities. We also committed to upgrade 700,000 home and business customers to superfast broadband for no extra charge by June 2020.

In August, EE launched new unlimited data plans for 4G and 5G consumer and SME customers. 5G business plans include Mobile Iron Threat Defence to help protect against security risks, whilst two new swappable benefits are available to consumers under Smart Plans: Amazon Prime Video and Gamers' Data Pass.

In addition to EE, BT has launched 5G smartphone plans for BT Mobile consumer and business customers. The service will first be available to BT Plus and BT Business customers.

Enterprise launched a new counter drone solution that will help organisations protect themselves from threats to privacy, security and safety from intruding drones. The solution will give organisations the capability to detect, track and identify drones which break airspace and site limits.

Best converged network

Mobile network

EE continues to be recognised as the UK's leading mobile network in independent surveys, including in RootMetrics' survey for the first half of 2019, which named EE the best mobile network in the half year for the sixth consecutive time.

BT continues to roll out 5G. The service is now available in more than 20 cities and large towns, and we will expand coverage to a further 25 towns by the end of 2019.

Fixed network

Openreach remains on target to deliver its commitment to reach 4m premises with FTTP by March 2021 and to achieve its ambition to pass 15m premises by the mid-2020s, subject to the right conditions.

Openreach extended its *Fibre First* programme to a further 29 locations across the UK, taking the total to 103 locations, where build will commence between now and March 2021, and is also trialling FTTP deployment in a further 13 rural locations. Openreach passed an average of c.23k homes and businesses every week in the quarter. Openreach's ultrafast broadband network now covers 4.2m premises, comprising 2.4m premises passed with Gfast and 1.8m with FTTP.

1.1m fibre enabled¹ broadband net connections were completed in the half year, and more than 13.3m customers are now connected to fibre enabled products. Superfast broadband is now available to nearly 28m premises.

During the quarter Openreach announced the launch of new FTTP 1Gbps and 550Mbps products and announced FTTP pricing revisions which go live in March 2020 to encourage communications providers to promote higher speed products.

Simplified, lean and agile business

Our cost transformation programme announced in May 2018 remains on track to remove 13,000 roles and deliver a year 3 cash cost reduction of £1.5bn per annum with costs to achieve of £800m. Around 2,200 roles have been removed in the year to date, taking the total to c.6,200 over the past 18 months. Savings from the programme amount to an annual benefit of over £1.1bn with an associated cost of £487m.

In July, we entered into a five-year partnership with global legal business DWF for the provision of legal support for claims and real estate matters. As part of the agreement BT will transfer staff from its existing in-house insurance claims and real estate teams to DWF.

During the quarter we divested BT Fleet Solutions, further enabling our renewed focus on delivering the best fixed and mobile networks in the UK.

¹ FTTP, FTTC and Gfast

In June, we announced the first eight locations in our consolidated office footprint as part of our *Better Workplace Programme*. We have subsequently signed lease agreements on new buildings in London and Bristol, and announced the refurbishment of our contact centre in Doncaster (which became the programme's ninth announced location).

Regulation

Consumer engagement

In September, Ofcom published an update on its review of pricing practices in the fixed broadband market, as part of its overall programme of work to ensure fairness for customers. In the report, Ofcom noted that BT has committed to a number of voluntary initiatives to create better outcomes for customers, including: a cap on the difference between the monthly prices paid by new or re-contracted and out-of-contract customers; a price reduction for broadband customers who live in areas without access to superfast speeds and who do not choose a service upgrade; and a limit on price increases for all customers to CPI only.

Ofcom concluded that it does not need to pursue targeted price interventions at this time, and the voluntary commitments from industry could bring about the benefits that targeted price interventions may deliver.

Ofcom's statement on out-of-contract charges for mobile handsets

In July, Ofcom published its statement on "Helping consumers to get better deals in communications markets – mobile handsets" which included details of voluntary commitments from communications providers to reduce bills for out-of-contract customers, including EE, which will discount the monthly price paid by out of contract customers.

At the same time, Ofcom published a consultation proposing to accelerate adoption of the EU's new rules to oblige communications providers to inform customers entering a bundled contract of the price of buying the handset and airtime separately; and to limit handset-only contracts to 24 months when linked to an airtime contract.

In September, BT submitted its response to Ofcom's consultation. We stated that whilst we agree with Ofcom's approach to addressing the handset loyalty penalty, action on split contracts should be taken under existing regulations rather than new ones being imposed; and that Ofcom's new business customer definitions will drive huge complexity.

Promoting investment and competition in fibre networks: Initial proposals – approach to remedies

In July, Ofcom published BT and Openreach's responses on its remedies consultation from March. BT requested greater certainty for investment decisions and challenged Ofcom's proposals to restrict Openreach's commercial flexibility. Openreach welcomed aspects of the remedies proposed by Ofcom such as support for copper switchover, as well as Ofcom's intent to make full fibre¹ investment in the 'final third' of the country attractive. However, Openreach also set out concerns that Ofcom's approach could constrain their ability to compete. Both BT and Openreach challenged Ofcom's proposal to regulate the supply of dark fibre access in the 'final third'.

Ofcom expects to consult on its final proposals in December.

Rural mobile network coverage

In October, DCMS confirmed total investment of £1bn for a cross-operator solution in support of Government's 95% geographic 4G coverage target, with £530m coming from mobile network operators. The Shared Rural Network programme would address both partial not-spots (where at least one but not all operators are present) and total not-spots (where no operator provides coverage today).

Rural Gigabit coverage

In October, the Government pledged £5bn to rollout "gigabit-capable" broadband across the hardest to reach 20% of the UK to achieve nationwide coverage as soon as possible. We welcome the pledge and note that Government assistance will be critical. We await further information on how the £5bn will be allocated.

¹ FTTP

Spectrum auction consultation

In October, Ofcom published updated proposals for the auction of spectrum on the 700 MHz and 3.6-3.8 GHz frequency bands that will take place in spring 2020. It proposes to use a ‘simultaneous multiple round ascending’ auction format similar to that used in last year’s auction of 3.4GHz spectrum. We support this auction format. Ofcom agreed to BT’s request to include a negotiation phase prior to deciding final 3.6-3.8 GHz band assignment positions. During this phase the winners of new spectrum will have four weeks to attempt to agree the ordering of the new spectrum blocks amongst themselves.

Following the announcement of the Shared Rural Network noted above, Ofcom no longer proposes including coverage obligations in the auction design, noting that the Shared Rural Network commitments are capable of delivering better outcomes for consumers than would be achieved through coverage obligations in the spectrum auction.

Ofcom Openreach Monitoring Unit update

In July, Ofcom published its annual monitoring report on “Delivering a more independent Openreach”. Ofcom stated that real progress has been made by BT and Openreach on implementing the Commitments associated with the legal separation of Openreach. The report also reiterates that more needs to be done, specifically on ensuring that there is transparency on how the balance between Openreach’s greater strategic independence and appropriate BT Group oversight is struck, and on ensuring the change is embedded across both organisations, so that it is sustainable.

Other matters

Brexit

There continues to be significant uncertainty regarding Brexit. We have plans in place to ensure that we’re prepared for the final outcome of the Brexit process, including the possibility of a no deal Brexit. 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. A disorderly exit could have a damaging impact on consumer and business confidence. It is too early to estimate the size of any potential impact.

Financial outlook

There is no change to our financial outlook for 2019/20 from that published on 3 July (which reflected the adoption of the IFRS 16 accounting standard).

	2019/20 outlook
Change in adjusted¹ revenue	Down c.2%
Adjusted¹ EBITDA	£7.9bn - £8.0bn
Capital expenditure²	£3.7bn - £3.9bn
Normalised free cash flow¹	£1.9bn - £2.1bn

¹ See Glossary on page 2

² Excluding BDUK grant funding deferral

Dividend

In line with our dividend policy BT is declaring an interim dividend of 4.62 pence per share, which is 30% of last year’s full-year dividend of 15.40 pence per share.

The Board expects to hold the full-year dividend unchanged at 15.40 pence per share for this financial year, given our current performance and 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 taking into consideration a number of factors including underlying medium term earnings expectations and levels of business reinvestment (which would include the consideration of accelerated FTTP investment).

The interim dividend will be paid on 3 February 2020 to shareholders on the register at 27 December 2019. The ex-dividend date is 24 December 2019. The election date for participation in BT’s Dividend Investment Plan in respect of this dividend is 13 January 2020. The final dividend for the year to 31 March 2019 of 10.78p, amounting to £1,064m, was approved at the Annual General Meeting on 10 July 2019 and paid on 9 September 2019.

Key operational metrics for the second quarter to 30 September 2019

Our key operational metrics are as follows:

Second quarter to 30 September	2019	2018
Consumer		
Average revenue per customer (ARPC) (£ per month)		
- Fixed	38.5	38.3
- Postpaid mobile	20.8	22.0
- Prepaid mobile	8.1	8.3
Monthly churn		
- Fixed	1.3%	1.6%
- Postpaid mobile	1.2%	1.2%
Fibre enabled share of broadband base		
- Superfast	75.8%	68.4%
- Ultrafast	1.6%	0.4%
Revenue generating units per address	2.38	2.37
Enterprise		
Number of products/customers ('000)		
- Voice lines	1,876	2,152
- VoIP seats ¹	748	494
- Retail broadband lines	749	782
- Wholesale broadband lines	774	741
- WAN circuits	85.2	84.8
- Ethernet circuits	52.0	48.1
- Private circuits ²	28.8	34.8
- Mobile customers	3,619	3,551
- MVNO customers	3,730	3,728
Call minutes (millions)		
- Retail ³	803	889
- Wholesale	830	928
Fibre enabled share of broadband base		
- Superfast	48.3%	42.5%
- Ultrafast	0.5%	0.1%
Rolling 12-month retail order intake (£m)	3,102	2,786
Rolling 12-month wholesale order intake (£m)	1,132	1,133
Global		
Rolling 12-month order intake (£m)	3,694	3,542
Openreach		
Network deployment ('000 premises passed)		
Superfast inc. ultrafast	27,695	27,220
- of which ultrafast Gfast	2,417	1,290
- of which ultrafast FTTP	1,810	682

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

² Q2 2018/19 comparative restated following review

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

Group results for the half year to 30 September 2019

Income statement

Reported revenue was £11,467m, down 1%, and adjusted¹ revenue was down 2% mainly reflecting the impact of regulation, declines in legacy products, and strategically reducing low margin business.

Reported operating costs were £9,705m, down 2%, and adjusted¹ operating costs were down 1% mainly driven by savings from our ongoing transformation programmes, offset by increased spectrum licence fees and content costs, and investment to improve our competitive positioning. Adjusted¹ EBITDA of £3,923m was down 3%².

Reported profit before tax was £1,333m and adjusted¹ profit before tax was £1,445m, impacted by the higher upfront interest expense associated with IFRS 16 lease liabilities recognised on 1 April 2019.

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

Specific items resulted in a net charge after tax of £88m (H1 2018/19: £265m). The main components are restructuring costs of £144m (H1 2018/19: £206m), loss on disposal of BT Fleet Solutions of £67m which includes an allocation of goodwill, and interest expense on pensions of £72m (H1 2018/19: £69m). These charges were offset by the gain on disposal of BT Centre of £115m; release of regulatory provisions of £55m (H1 2018/19: £41m charge); and tax credit on specific items of £24m (H1 2018/19: £52m).

Tax

The effective tax rate was 19.9% on reported profit and 20.0% on adjusted¹ profit, based on our current estimate of the full year effective tax rate.

Capital expenditure

Capital expenditure was £1,882m (H1 2018/19: £1,833m). This includes grant funding deferral under the Broadband Delivery UK (BDUK) programme. Excluding BDUK gainshare, capital expenditure was £1,863m (H1 2018/19: £1,638m).

Network investment (excluding BDUK gainshare) was £936m, up 18%. This reflects higher investment in 5G and our *Fibre Cities* programme, partially offset by lower spend on the Emergency Services Network (ESN) and non-5G mobile network. Other capital expenditure components were up 10% with £494m spent on customer-driven investments, £357m on systems and IT, and £76m spent on non-network infrastructure. Our BDUK grant funding deferral at the half year was £622m.

Free cash flow

Net cash inflow from operating activities was up £1,419m to £2,173m mainly driven by £751m lower contributions to the BT Pension Scheme in the current year and significant one-off cash flows. Normalised free cash flow¹ was down £370m to £604m due to increased capital expenditure and higher interest and tax payments, partially offset by one-off cash flows. A reconciliation to our free cash flow is shown in Additional Information on page 33.

Net cash receipts from specific items were £67m (H1 2018/19: net cash payments £277m). This includes income on disposal of BT Centre of £210m (H1 2018/19: £nil) and receipt of annual licence fee refund from Ofcom of £87m (H1 2018/19: £nil), offset by restructuring payments of £190m (H1 2018/19: £190m) and regulatory payments of £20m (H1 2018/19: £51m). The refund of annual licence fee has not been recognised as income pending the outcome of Ofcom's appeal.

Net debt and liquidity

Net debt¹ was £18.3bn at 30 September 2019, £7.3bn higher than at 31 March 2019 (£11.0bn), primarily reflecting lease liabilities recognised on transition to IFRS 16 on 1 April 2019, which had a carrying amount of £6.1bn at 30 September 2019. Excluding these lease liabilities, net financial debt was £12.2bn, £1.2bn higher than at 31 March 2019.

This increase was driven by £1.3bn of contributions to the BT Pension Scheme in June 2019, £1.0bn dividend payment in September 2019, £1.9bn net capital expenditure and £0.3bn payment of lease liabilities; partly offset by net cash inflow from operating activities (excluding pension contributions) of £3.4bn.

At 30 September 2019 the group held cash and current investment balances of £4.2bn. The current portion of loans and other borrowings of £1.5bn include term debt of £0.3bn repayable during 2019/20. We issued bonds of £1.3bn in September 2019 and repaid bonds of £0.9bn which matured in June 2019.

Our £2.1bn committed facility, which matures in September 2021, remains undrawn at 30 September 2019.

¹ See Glossary on page 2

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

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

Pension (Note 7 to the condensed consolidated financial statements)

The IAS 19 pension position at 30 September 2019 was a deficit of £5.1bn net of tax (£6.1bn 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 £1.1bn since 31 March 2019 mainly reflects deficit contributions paid over the period, with changes to financial assumptions used to value the liabilities broadly offsetting asset returns.

In September 2019, the Government and the UK Statistics Authority announced potential changes to the calculation of the Retail Price Index (RPI). The announcements create uncertainty around future expectations of RPI and CPI and therefore the measurement of the pension liabilities at 30 September. We have amended the inflation assumptions to reflect our future expectations but note that additional developments could lead to further changes to our inflation assumptions at future reporting dates. In accordance with our normal policy we will perform our next review of all assumptions, including those for inflation, at 31 March 2020.

BT has been refused permission by the Supreme Court to appeal the Court of Appeal's decision concerning the index for calculating pension increases for Section C members of the BT Pension Scheme.

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>

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

Operating review

Consumer

	Second quarter to 30 September				Half year to 30 September			
	2019 (IFRS 16) £m	2018 ³ (IFRS 16 pro forma ⁴) £m	Change £m %		2019 (IFRS 16) £m	2018 ³ (IFRS 16 pro forma except where noted ⁴) £m	Change £m %	
Revenue ¹	2,644	2,654	(10)	-	5,194	5,224	(30)	(1)
Operating costs ¹	2,052	2,037	15	1	4,014	3,987	27	1
EBITDA ²	592	617	(25)	(4)	1,180	1,237	(57)	(5)
Depreciation & amortisation					631	515 ⁴	n/m	n/m
Operating profit ¹					549	608 ⁴	n/m	n/m
Capital expenditure					455	373	82	22
Normalised free cash flow					534	617	(83)	(13)

Revenue¹ declined in the half year, predominantly due to known regulatory headwinds from international calling and mobile spend caps. Excluding the impact of regulation, revenue grew year on year.

EBITDA² for the half year was down 5%, driven by revenue decline and increased spectrum licence fees and content costs. Excluding regulation and spectrum, EBITDA² was broadly flat year on year.

The movement in depreciation and amortisation was primarily due to the adoption of IFRS 16⁴. Operating profit¹ fell to £549m.

Capital expenditure was up 22%, due to continued investment in the core broadband network along with spend on the 5G network. Normalised free cash flow was down 13% largely due to the lower EBITDA and higher capital expenditure.

Fixed churn in the quarter fell to 1.3%, down from 1.6% in the prior year, following improvements to customer experience and our new annual CPI pricing strategy. Mobile churn in the quarter remained low compared to the same period last year at 1.2%, despite the introduction of auto switching.

Around a quarter of our broadband customers on the BT brand now take BT Plus, which includes no out-of-contract price increases. Our converged offering will soon be enhanced with the launch of Halo, offering the best connection and experience with unlimited data at home and on the go, access to 5G, and inclusive Home Tech Expert support. Customers who sign up for 5G and BT Plus will be upgraded to Halo from November.

EE was the first to launch 5G and has now also launched unlimited data tariffs. Early 5G results are in line with expectations. During the quarter we successfully launched Apple's new devices and were the first network to offer Samsung's foldable phone. EE was named the UK's best mobile network in the half year for the sixth consecutive time by independent testing experts, RootMetrics, taking top spot in all six categories.

As previously announced we will be ramping up investment in a number of initiatives to improve our competitive position. From January 2020 we will answer all customer calls in the UK and Ireland, a year ahead of the original schedule, and we have accelerated the managed migration of copper customers to fibre enabled products. With the launch of Smart Plans and unlimited data, and our unprecedented distribution capability on a market leading range of devices, we continue to deliver against our more-for-more strategy.

¹ Adjusted (being before specific items). See glossary on page 2

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 2

³ All prior year comparatives as reported in the Q2 2018/19 results release have been restated for the changes detailed on footnote 2 on page 2

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

	Second quarter to 30 September				Half year to 30 September			
	2019 (IFRS 16)	2018 ³ (IFRS 16 pro forma ⁴)	Change		2019 (IFRS 16)	2018 ³ (IFRS 16 pro forma except where noted ⁴)	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue ¹	1,539	1,633	(94)	(6)	3,055	3,221	(166)	(5)
Operating costs ¹	1,042	1,116	(74)	(7)	2,087	2,218	(131)	(6)
EBITDA ²	497	517	(20)	(4)	968	1,003	(35)	(3)
Depreciation & amortisation					355	333 ⁴	n/m	n/m
Operating profit ¹					613	608 ⁴	n/m	n/m
Capital expenditure					233	246	(13)	(5)
Normalised free cash flow					630	564	66	12

Revenue¹ decreased in the half year mainly due to declines in traditional fixed voice usage, with total fixed voice revenue down £74m, along with lower managed service revenue and a reduction in low margin equipment sales.

These declines were partly offset by growth in mobile revenue, despite tough market conditions, alongside growth in VoIP revenue, and in WAN and Ethernet revenue. While our reported retail mobile customer base declined by 4k in the quarter, this was after we disconnected 26k low-ARPU SIMs after a corporate customer ceased trading. In the half year we saw continued good growth in VoIP seats and our overall broadband subscriber base returned to growth. Demand for our 4G Assure product continues to be strong, accounting for over 50% of SME broadband sales.

EBITDA² declined 3% in the half year, as the lower revenue was partly offset by lower labour costs from our ongoing restructuring programmes. Operating costs¹ were down 6% in the half year.

Capital expenditure decreased 5% and normalised free cash flow increased 12%, driven by the upfront cash payment of c.£100m received as part of our deal with Cellnex in Q1 2019/20.

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

On a rolling 12-month basis Wholesale order intake was flat at £1.1bn. Retail order intake increased 11% to £3.1bn on a rolling 12-month basis, despite some signs of slower decision making amongst our larger customers given the wider macro uncertainty.

In October, we announced the launch of Halo for Business. This offers SMEs superfast broadband and a future-ready digital phone line with a range of services that aren't available on legacy phone lines, backed by an always-connected guarantee, 24/7 UK-based customer support, and a fixed price promise for the duration of the contract. We also launched our counter drone solution helping organisations protect themselves from threats to privacy, security and safety by intruding drones.

On 30 September, we completed the divestment of BT Fleet Solutions, reflecting our focus on investing in the best fixed and mobile networks in the UK.

¹ Adjusted (being before specific items). See glossary on page 2

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 2

³ All prior year comparatives as reported in the Q2 2018/19 results release have been restated for the changes detailed on footnote 2 on page 2

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

	Second quarter to 30 September				Half year to 30 September			
	2019 (IFRS 16)	2018 ³ (IFRS 16 pro forma ⁴)	Change		2019 (IFRS 16)	2018 ³ (IFRS 16 pro forma except where noted ⁴)	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue ¹	1,111	1,185	(74)	(6)	2,196	2,332	(136)	(6)
Operating costs ¹	947	1,049	(102)	(10)	1,892	2,077	(185)	(9)
EBITDA ²	164	136	28	21	304	255	49	19
Depreciation & amortisation					247	190 ⁴	n/m	n/m
Operating profit ¹					57	(12) ⁴	n/m	n/m
Capital expenditure					96	99	(3)	(3)
Normalised free cash flow					40	(74)	114	154

Revenue¹ for the half year was down 6% reflecting our strategic decisions to reduce low margin business, divestments and legacy portfolio declines, partially offset by growth in Security and a £34m positive impact from foreign exchange movements.

EBITDA² for the half year was up £49m as lower revenue was more than offset by certain one-offs, a £7m positive impact from foreign exchange movements and a reduction in operating costs¹ reflecting ongoing transformation.

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

Capital expenditure was down slightly due to lower project spend and timing of spend in the year. Normalised free cash flow improved by £114m, reflecting higher EBITDA, improved working capital and lower capital expenditure.

Order intake in the quarter was £1.3bn, up 66% benefitting from a number of large renewals including Nestle. On a rolling 12-month basis it was £3.7bn, up 4% year on year.

During the quarter we expanded our relationship with Spain's central government to support its operations around the world by providing communications services in 120 countries.

Global is transforming its support for multinational customers from physical infrastructure to cloud services, delivered through flexible, software defined wide area networks (SD-WAN), that give the highest levels of flexibility and security. During the quarter we successfully completed the implementation of a new SD-WAN for Rexel, connecting more than 50 sites throughout Germany.

¹ Adjusted (being before specific items). See glossary on page 2

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 2

³ All prior year comparatives as reported in the Q2 2018/19 results release have been restated for the changes detailed on footnote 2 on page 2

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)

Openreach

	Second quarter to 30 September				Half year to 30 September			
	2019 (IFRS 16)	2018 ³ (IFRS 16 pro forma ⁴)	Change		2019 (IFRS 16)	2018 ³ (IFRS 16 pro forma except where noted ⁴)	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue ¹	1,268	1,293	(25)	(2)	2,536	2,548	(12)	-
Operating costs ¹	568	532	36	7	1,119	1,070	49	5
EBITDA ²	700	761	(61)	(8)	1,417	1,478	(61)	(4)
Depreciation & amortisation					838	664 ⁴	n/m	n/m
Operating profit ¹					579	721 ⁴	n/m	n/m
Capital expenditure					1,015	1,055	(40)	(4)
Normalised free cash flow					197	448	(251)	(56)

Revenue¹ decline in the half year was driven by price reductions (both the impact of Openreach's commercial offer of volume discounts for fibre enabled products and regulated price reductions), and higher service level compensation due to the implementation of auto-compensation. This was partly offset by underlying growth of 23% in our fibre enabled rental base (enabled by the commercial offer of volume discounts), and 9% in our Ethernet rental base.

Operating costs¹ were 5% higher primarily driven by higher business rates, pay inflation, and higher pay costs due to investment in more colleagues to deliver better service and investment plans. These drivers were partly offset by efficiency savings and certain one off items. EBITDA² was down reflecting the decreased revenue and increase in costs.

Depreciation and amortisation was £838m. Excluding IFRS 16 depreciation on right-of-use assets, it was £737m, which represents an increase of £73m compared to last year, driven by increased asset base. Operating profit¹ was £579m.

Excluding BDUK gainshare, capital expenditure was up £135m, or 16%, driven by investments in the network, predominantly fibre enabled infrastructure, partially offset by efficiency savings.

Normalised free cash flow was down 56% due to higher operating costs and cash capital expenditure, and timing of working capital.

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.

Openreach is on track to deliver FTTP to 4 million premises by March 2021. Our full fibre network now reaches 1.8 million premises, and we are building at a run rate of c.23k premises passed per week on average. To drive consumption of higher speed FTTP, Openreach is introducing two new top tiers for consumers (1Gbps and 550Mbps) and pricing revisions have been announced.

¹ Adjusted (being before specific items). See glossary on page 2

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 2

³ All prior year comparatives as reported in the Q2 2018/19 results release have been restated for the changes detailed on footnote 2 on page 2

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)

Condensed consolidated financial statements

Group income statement

For the half year to 30 September 2019 (IFRS 16 basis)

	Note	Before specific items (‘Adjusted’)	Specific items (note 6)	Total (Reported)
		£m	£m	£m
Revenue	3,4	11,413	54	11,467
Operating costs	5	(9,611)	(94)	(9,705)
Operating profit		1,802	(40)	1,762
Finance expense		(379)	(72)	(451)
Finance income		20	-	20
Net finance expense		(359)	(72)	(431)
Share of post tax profit of associates and joint ventures		2	-	2
Profit before tax		1,445	(112)	1,333
Tax		(289)	24	(265)
Profit for the period		1,156	(88)	1,068
Earnings per share				
- basic		11.7p	(0.9)p	10.8p
- diluted		11.6p	(0.9)p	10.7p

Group income statement

For the half year to 30 September 2018 (IAS 17 basis)

	Note	Before specific items (‘Adjusted’)	Specific items (note 6)	Total (Reported)
		£m	£m	£m
Revenue	3,4	11,624	(36)	11,588
Operating costs	5	(9,685)	(212)	(9,897)
Operating profit		1,939	(248)	1,691
Finance expense		(295)	(69)	(364)
Finance income		12	-	12
Net finance expense		(283)	(69)	(352)
Share of post tax profit of associates and joint ventures		1	-	1
Profit before tax		1,657	(317)	1,340
Tax		(340)	52	(288)
Profit for the period		1,317	(265)	1,052
Earnings per share				
- basic		13.3p	(2.7)p	10.6p
- diluted		13.2p	(2.7)p	10.5p

Group statement of comprehensive income

	Half year to 30 September	
	2019 (IFRS 16) £m	2018 (IAS 17) £m
Profit for the period	1,068	1,052
Other comprehensive income (loss)		
Items that will not be reclassified to the income statement:		
Remeasurements of the net pension obligation	(83)	(292)
Tax on pension remeasurements	14	58
Items that have been or may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	88	74
Fair value movements on assets at fair value through other comprehensive income	(12)	5
Movements in relation to cash flow hedges:		
- net fair value gains (losses) ¹	659	461
- recognised in income and expense ¹	(381)	(286)
Transfer to cost of hedging reserve on adoption of IFRS 9 ¹	-	(81)
Tax on components of other comprehensive income that have been or may be reclassified	(50)	(30)
Other comprehensive profit (loss) for the period, net of tax	235	(91)
Total comprehensive income for the period	1,303	961

¹ 2018 comparatives have been re-presented to split out the transfer to cost of hedging reserve on adoption of IFRS 9 from movements in relation to cash flow hedges

Group balance sheet

	30 September 2019 (IFRS 16)	31 March 2019 (IAS 17)
	£m	£m
Non-current assets		
Intangible assets	14,149	14,385
Property, plant and equipment	18,129	17,835
Right-of-use assets ¹	4,942	-
Derivative financial instruments	2,092	1,481
Investments	42	54
Associates and joint ventures	52	47
Trade and other receivables	409	445
Contract assets	260	249
Deferred tax assets	1,134	1,347
	41,209	35,843
Current assets		
Programme rights	715	310
Inventories	315	369
Trade and other receivables	3,222	3,222
Contract assets	1,420	1,353
Assets held for sale	-	89
Current tax receivable	164	110
Derivative financial instruments	124	111
Investments	3,727	3,214
Cash and cash equivalents ²	499	1,666
	10,186	10,444
Current liabilities		
Loans and other borrowings ²	1,525	2,100
Derivative financial instruments	61	48
Trade and other payables	5,752	5,790
Contract liabilities	1,244	1,225
Lease liabilities ¹	776	-
Current tax liabilities	-	15
Provisions	394	424
	9,752	9,602
Total assets less current liabilities	41,643	36,685
Non-current liabilities		
Loans and other borrowings	16,189	14,776
Derivative financial instruments	908	892
Contract liabilities	251	200
Lease liabilities ¹	5,336	-
Retirement benefit obligations	6,091	7,182
Other payables	707	1,479
Deferred tax liabilities	1,452	1,407
Provisions	424	582
	31,358	26,518
Equity		
Share capital	499	499
Share premium	1,051	1,051
Own shares	(240)	(167)
Merger reserve	2,572	4,147
Other reserves	1,022	718
Retained earnings	5,381	3,919
Total equity	10,285	10,167
	41,643	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 £78m at 30 September 2019 (31 March 2019: £72m) are included within loans and other borrowings

Group statement of changes in equity

For the half year to 30 September 2019 (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 opening balance adjustment ¹	-	-	-	-	-	(87)	(87)
Tax on IFRS 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	-	-	-	-	-	1,068	1,068
Other comprehensive income (loss) before tax	-	-	-	-	735	(83)	652
Tax on other comprehensive (loss) income	-	-	-	-	(50)	14	(36)
Transferred to the income statement	-	-	-	-	(381)	-	(381)
Comprehensive income	-	-	-	-	304	999	1,303
Transfer to realised profit	-	-	-	(1,575)	-	1,575	-
Dividends to shareholders	-	-	-	-	-	(1,064)	(1,064)
Share-based payments	-	-	-	-	-	33	33
Net buyback of own shares	-	-	(73)	-	-	(12)	(85)
Other movements	-	-	-	-	-	2	2
At 30 September 2019	499	1,051	(240)	2,572	1,022	5,381	10,285

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 half year to 30 September 2018 (IAS 17 basis)

At 1 April 2018	499	1,051	(186)	6,647	534	2,426	10,971
Profit for the period	-	-	-	-	-	1,052	1,052
Other comprehensive income (loss) before tax	-	-	-	-	459	(292)	167
Tax on other comprehensive (loss) income	-	-	-	-	(30)	58	28
Transferred to the income statement	-	-	-	-	(286)	-	(286)
Comprehensive income	-	-	-	-	143	818	961
Transfer to realised profit	-	-	-	(2,500)	-	2,500	-
Dividends to shareholders	-	-	-	-	-	(1,045)	(1,045)
Share-based payments	-	-	-	-	-	36	36
Net buyback of own shares	-	-	15	-	-	(22)	(7)
Unclaimed dividends over 10 years	-	-	-	-	-	14	14
Other movements	-	-	-	-	-	(2)	(2)
At 30 September 2018	499	1,051	(171)	4,147	677	4,725	10,928

Group cash flow statement

For the half year to 30 September

	Half year to 30 September	
	2019 (IFRS 16) £m	2018 (IAS 17) £m
Cash flow from operating activities		
Profit before taxation	1,333	1,340
Share of post tax loss (profit) of associates and joint ventures	(2)	(1)
Net finance expense	431	352
Operating profit	1,762	1,691
Other non-cash charges	115	9
Interest on lease liabilities ¹	(70)	-
Loss on disposal of business	67	-
Profit on disposal of property, plant and equipment	(115)	-
Depreciation and amortisation	2,121	1,736
(Increase) decrease in inventories	53	(65)
(Increase) decrease in programme rights	31	60
(Increase) decrease in trade and other receivables	(25)	(268)
(Increase) decrease in contract assets	(75)	54
(Decrease) increase in trade and other payables	(541)	(209)
(Decrease) increase in contract liabilities	104	(29)
Decrease in other liabilities ²	(1,173)	(1,972)
(Decrease) increase in provisions	2	(43)
Cash generated from operations	2,256	964
Income taxes paid	(83)	(210)
Net cash inflow (outflow) from operating activities	2,173	754
Cash flow from investing activities		
Interest received	16	8
Dividends received from associates and joint ventures	(1)	-
Proceeds on disposal of subsidiaries, associates and joint ventures	7	-
Acquisition of joint ventures	(4)	(6)
Proceeds on disposal of current financial assets	6,216	6,395
Purchases of current financial assets	(6,717)	(6,721)
Proceeds on disposal of property, plant and equipment	214	3
Purchases of property, plant and equipment and software	(2,067)	(1,739)
Net cash inflow (outflow) from investing activities	(2,336)	(2,060)
Cash flow from financing activities		
Equity dividends paid	(1,048)	(1,040)
Interest paid	(300)	(236)
Repayment of borrowings ³	(811)	(480)
Proceeds from bank loans and bonds	1,257	2,896
Payment of lease liabilities ¹	(311)	-
Cash flows from derivatives related to net debt	-	59
Net movement on commercial paper	277	-
Proceeds from issue of own shares	1	2
Repurchase of ordinary share capital	(86)	(9)
Net cash inflow (outflow) from financing activities	(1,021)	1,192
Net increase (decrease) in cash and cash equivalents	(1,184)	(114)
Opening cash and cash equivalents	1,594	499
Net (decrease) increase in cash and cash equivalents	(1,184)	(114)
Effect of exchange rate changes	11	7
Closing cash and cash equivalents⁴	421	392

¹ Interest on lease liabilities and payment of lease liabilities relate to the interest and principal elements of lease liabilities recognised following adoption of IFRS 16 on 1 April 2019. See note 1 to the condensed consolidated financial statements

² Includes pension deficit payments of £1,261m for the half year to 30 September 2019 (H1 2018/19: £2,012m)

³ Repayment of borrowings includes the impact of hedging

⁴ Net of bank overdrafts of £78m at 30 September 2019 (30 September 2018: £39m; 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 half years to 30 September 2019 and 30 September 2018 together with the balance sheet at 31 March 2019. The financial statements for the half year to 30 September 2019 have been reviewed by the auditors and their review opinion is on page 31. The financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook (DTR) of the Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* as adopted by the European Union. The financial statements should be read in conjunction with the Annual Report 2019 which was prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In preparing the group financial statements, the directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB).

Having assessed the principal risks, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Except for the impact of IFRS 16 as described below and other than income taxes which are accrued using the tax rate that is expected to be applicable for the full financial year, 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 comparative figures for the financial year ended 31 March 2019 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

New and amended accounting standards effective during the year

IFRS 16 *Leases* is effective for BT Group 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 standard has not had a material impact on the accounting for arrangements currently identified as leases. However, "last mile" and Ethernet arrangements provided by Openreach now meet the IFRS 16 lease definition, with Openreach as lessor. These arrangements were previously accounted for as service contracts, with upfront connections fees deferred over the contractual period.

Under IFRS 16 these fees are now deferred over the lease term. For last mile arrangements, this is longer than the current contractual deferral period as it also covers the duration that we are 'reasonably certain' that communications providers 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 Ethernet arrangements, the difference between the contractual term and the lease term 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 within cash flows from operating activities, 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 October 2018 we combined our Business and Public Sector and Wholesale and Ventures customer-facing units into a single customer-facing unit, Enterprise. At the same time we transferred our Northern Ireland Networks business (now 'Openreach Northern Ireland') from Business and Public Sector to Openreach, and reclassified certain internal revenues generated by our Ventures businesses within Enterprise as segmental revenue rather than internal recovery of cost.

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 segment information note have been revised to be presented on a consistent basis. See note 3.

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 opening balance adjustment	-	-	-	-	-	(87)	(87)
Tax on IFRS 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

Half year to 30 September 2019	External Revenue	Internal revenue	Group revenue	Adjusted EBITDA ¹	Operating profit
	£m	£m	£m	£m	£m
Consumer	5,144	50	5,194	1,180	549
Enterprise	2,909	146	3,055	968	613
Global	2,196	-	2,196	304	57
Openreach	1,164	1,372	2,536	1,417	579
Other	-	-	-	54	4
Intra-group items	-	(1,568)	(1,568)	-	-
Total adjusted²	11,413	-	11,413	3,923	1,802
Specific items (note 6)			54		(40)
Total			11,467		1,762

Half year to 30 September 2018 (restated) ³	External Revenue	Internal revenue	Group revenue	Adjusted EBITDA ¹	Operating profit
	£m	£m	£m	£m	£m
Consumer	5,172	52	5,224	1,123	608
Enterprise	3,033	188	3,221	941	608
Global	2,332	-	2,332	178	(12)
Openreach	1,085	1,463	2,548	1,385	721
Other	2	-	2	48	14
Intra-group items	-	(1,703)	(1,703)	-	-
Total adjusted²	11,624	-	11,624	3,675	1,939
Specific items (note 6)			(36)		(248)
Total			11,588		1,691

¹ For the reconciliation of adjusted EBITDA see additional information on page 32

² See Glossary on page 2

³ 2018 results have been restated to reflect the bringing together of our Business and Public Sector and Wholesale and Ventures customer-facing units into a single customer-facing unit, Enterprise, on 1 October 2018; the transfer of our Northern Ireland Networks business from Enterprise to Openreach and reclassification of certain internal revenues generated by our Ventures businesses as segmental revenue rather than internal recovery of cost; and the change in the allocation of group overhead costs and the transfer of the Emergency Services Network contract from Consumer to Enterprise

4 Operating result – by type of revenue

Half year to 30 September 2019	Consumer	Enterprise	Global	Openreach	Total
	£m	£m	£m	£m	£m
ICT and managed networks	-	1,073	1,149	-	2,222
Fixed access subscription revenue	2,225	1,024	181	1,134	4,564
Mobile subscription revenue	1,924	601	50	-	2,575
Equipment and other services	995	211	816	30	2,052
Total adjusted¹	5,144	2,909	2,196	1,164	11,413
Specific items (note 6)					54
Total					11,467

Half year to 30 September 2018	£m
ICT and managed networks	2,203
Fixed access subscription revenue	4,641
Mobile subscription revenue	2,659
Equipment and other services	2,121
Total adjusted¹	11,624
Specific items (note 6)	(36)
Total	11,588

¹ See Glossary on page 2

5 Operating costs

	Half year to 30 September	
	2019 (IFRS 16 ¹) £m	2018 (IAS 17 ¹) £m
Direct labour costs	2,638	2,664
Indirect labour costs	500	472
Leaver costs	8	8
Total labour costs	3,146	3,144
Capitalised labour	(751)	(729)
Net labour costs	2,395	2,415
Product costs and sales commissions	2,154	2,172
Payments to telecommunications operators	927	1,073
Property and energy costs	493	661
Network operating and IT costs	440	508
Programme rights charges	437	403
Other operating costs	644	717
Operating costs before depreciation, amortisation and specific items	7,490	7,949
Depreciation and amortisation	2,121	1,736
Total operating costs before specific items	9,611	9,685
Specific items (Note 6)	94	212
Total operating costs	9,705	9,897

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

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.

	Half year to 30 September	
	2019 £m	2018 £m
Specific revenue		
Retrospective regulatory matters	(54)	36
Specific revenue	(54)	36
Specific operating costs		
Restructuring charges	144	206
Retrospective regulatory matters	(1)	5
Italian business investigation	-	1
Property rationalisation	(111)	-
Provisions for claims	(5)	-
Loss on disposal of business	67	-
Specific operating costs	94	212
Specific operating loss	40	248
Net interest expense on pensions	72	69
Net specific items charge before tax	112	317
Tax credit on specific items before tax	(24)	(52)
Net specific items charge after tax	88	265

Restructuring charges

During the first half of the year we incurred charges of £144m (H1 2018/19: £206m), primarily relating to leaver costs. These costs reflect projects within our group-wide cost transformation programme and include £5m (H1 2018/19: £17m) costs related to the remaining integration of EE.

Retrospective regulatory matters

We have recognised a net credit of £55m (H1 2018/19: charge of £41m) in relation to regulatory matters. This reflects the settlement of various matters during the quarter. Of this, £54m is recognised in revenue and £1m in operating costs.

Property rationalisation

We have recognised a credit of £111m (H1 2018/19: £nil) relating to the gain on sale of BT Centre of £115m, slightly offset by costs associated with our *Better Workplace Programme*.

Provisions for claims

We have recognised a credit of £5m (H1 2018/19: £nil) in relation to release of provisions for claims created through specific items in 2012/13 which have now been fully settled.

Loss on disposal of business

We have recognised a loss on disposal of £67m (H1 2018/19: £nil) relating to the divestment of BT Fleet Solutions. This includes an allocation of goodwill of £24m.

Interest expense on retirement benefit obligation

During the year we incurred £72m (H1 2018/19: £69m) of interest costs in relation to our defined benefit pension obligations.

Tax on specific items

A tax credit of £24m (H1 2018/19: £52m) was recognised in relation to the above specific items.

7 Pensions

	30 September 2019	31 March 2019
	£bn	£bn
IAS 19 liabilities – BTPS	(63.0)	(58.9)
Assets – BTPS	57.5	52.2
Other schemes	(0.6)	(0.5)
Total IAS 19 deficit, gross of tax	(6.1)	(7.2)
Total IAS 19 deficit, net of tax	(5.1)	(6.0)
Discount rate (nominal)	1.80%	2.35%
Discount rate (real)	(1.26%)	(0.87%)
RPI inflation	3.10%	3.25%
CPI inflation	1.0% below RPI until 31 March 2030 and 0.85% below RPI thereafter	1.1% below RPI until 31 March 2023 and 1.0% below RPI thereafter

In September 2019, the Government and the UK Statistics Authority announced potential changes to the calculation of the Retail Price Index (RPI). The announcements create uncertainty around future expectations of RPI and CPI and therefore the measurement of the pension liabilities at 30 September. We have amended the inflation assumptions to reflect our future expectations but note that additional developments could lead to further changes to our inflation assumptions at future reporting dates. In accordance with our normal policy we will perform our next review of all assumptions, including those for inflation, at 31 March 2020.

8 Financial instruments and risk management

Fair value of financial assets and liabilities measured at amortised cost

At 30 September 2019, the fair value of listed bonds and other long-term borrowings was £20,403m (31 March 2019: £17,785m) and the carrying value was £17,714m (31 March 2019: £16,670m).

The fair value of the following financial assets and liabilities approximate to their carrying amount:

- Cash and cash equivalents
- Lease liabilities
- Trade and other receivables
- Trade and other payables
- Provisions
- Investments held at amortised cost
- Other short term borrowings
- Contract assets
- Contract liabilities

The group's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk); credit risk; and liquidity risk. There have been no changes to the risk management policies which cover these risks since 31 March 2019.

Fair value estimation

Fair values of financial instruments are analysed by three levels of valuation methodology which are:

1. Level 1 – uses quoted prices in active markets for identical assets or liabilities
2. Level 2 – uses inputs for the asset or liability other than quoted prices, that are observable either directly or indirectly
3. Level 3 – uses inputs for the asset or liability that are not based on observable market data, such as internal models or other valuation methods.

The fair values of the group's outstanding derivative financial assets and liabilities were estimated using discounted cash flow models and market rates of interest and foreign exchange at the balance sheet date.

	Level 1	Level 2	Level 3	Total held at fair value
30 September 2019	£m	£m	£m	£m
Investments				
Fair value through other comprehensive income	27	-	9	36
Fair value through profit and loss	6	-	-	6
Derivative assets				
Designated in a hedge	-	1,896	-	1,896
Fair value through profit and loss	-	320	-	320
Total assets	33	2,216	9	2,258
Derivative liabilities				
Designated in a hedge	-	709	-	709
Fair value through profit and loss	-	260	-	260
Total liabilities	-	969	-	969

	Level 1	Level 2	Level 3	Total held at fair value
31 March 2019	£m	£m	£m	£m
Investments				
Fair value through other comprehensive income	38	-	10	48
Fair value through profit and loss	6	-	-	6
Derivative assets				
Designated in a hedge	-	1,330	-	1,330
Fair value through profit and loss	-	262	-	262
Total assets	44	1,592	10	1,646
Derivative liabilities				
Designated in a hedge	-	729	-	729
Fair value through profit and loss	-	211	-	211
Total liabilities	-	940	-	940

No gains or losses have been recognised in the income statement in respect of Level 3 assets held at 30 September 2019. There were no changes to the valuation methods or transfers between levels 1, 2 and 3 during the half year.

9 Share capital

In the half year to 30 September 2019, 7.0m shares (H1 2018/19: 7.8m) at a total cost of £20m (H1 2018/19: £24m), calculated at a weighted average cost per share, were transferred from own shares to satisfy obligations under all-employee and executive share plans. We received cash proceeds of £1m (H1 2018/19: £2m). Own shares of £86m (H1 2018/19: £9m) were purchased during the half year. £80m of this relates to the purchase of 40.7m BT Group plc shares from Orange, which will continue to offset the dilutive effect of employee share schemes. In addition, £7m was transferred to own shares following termination of our American Depositary Receipt programme on 23 September 2019.

10 Financial commitments

Capital expenditure for property, plant and equipment and software contracted for at the balance sheet date but not yet incurred was £1,581m (30 September 2018: £1,293m; 31 March 2019: £1,432m). Programme rights commitments, mainly relating to football broadcast rights for which the licence period has not yet started, were £2,165m (30 September 2018: £2,866m; 31 March 2019: £2,113m).

11 Dividend

The Board has declared an interim dividend of 4.62p per share, totalling £457m (Q2 2018/19: 4.62p per share, totalling £458m). It will be paid on 3 February 2020 to shareholders on the register on 27 December 2019. The ex-dividend date is 24 December 2019. The election date for participation in BT's Dividend Investment Plan in respect of this dividend is 13 January

2020. The final dividend for the year to 31 March 2019 of 10.78p, amounting to £1,064m, was approved at the Annual General Meeting on 10 July 2019 and paid on 9 September 2019.

12 Contingent liabilities

Save for the updates provided below, there have been no material updates relating to the legal proceedings and regulatory matters as disclosed in the Annual Report 2019.

Legal proceedings

Italian Business

US class action: The US Federal Court permitted the Plaintiffs to file a fourth amended complaint, which was filed on Friday 16 August 2019. Our Motion to Dismiss that complaint was filed on 4 October 2019. The plaintiff's opposition to the motion is due on 22 November 2019 and our reply to that opposition is due on 23 December 2019.

MPP prosecutions: We have now been served with a Request for Indictment from the Milan Public Prosecutor to the Court in Milan, requesting that BT Italia and 23 named individuals be committed to trial.

Brazilian tax claims

The Brazilian state tax authorities have made tax demands on the exchange of goods and services (ICMS) and regulatory assessments (FUST/FUNTTTEL) 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/FUNTTTEL 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/FUNTTTEL are imposed and, in the case of ICMS, have challenged the rate which the tax authorities are seeking to apply. Currently we have 35 ICMS cases with an updated potential value of £207.4m. This is the assessed amount for all cases spanning the period from 1998 to 2012 (plus one outlier case for the period 2013 to 2016 in the state of Minas Gerais; one case for the period 2014 to 2015 in the state of Amazonas and one from June, 2014 up to December, 2015 in São Paulo for BT LATAM).

There are currently 59 FUST/FUNTTTEL cases with a known overall liability of £28m.

There are nine ICMS cases worth approximately £69m which are at an advanced stage. These are currently pending before the Sao Paulo Court of Appeal. We are waiting for the Reporting Judge to schedule the trial hearing.

Phones 4U

Since 2015 the administrators of Phones 4U Limited have made allegations that a number of mobile network operators including EE colluded to procure Phones 4U's insolvency. During the year proceedings were issued for an unquantified amount by the administrators and we submitted our defence to this claim, and in October 2019 received the administrator's reply to our defence. We continue to dispute these allegations vigorously.

Regulatory matters

Northern Ireland Public Sector Shared Network contract

On 4 April 2019 Ofcom opened an investigation into whether the award of the Public Sector Shared Network contract for Northern Ireland to BT complied with relevant significant market power conditions. Ofcom has indicated it will decide on next steps in its investigation in Q3 2019/20. We are cooperating with Ofcom's investigation.

Spectrum annual licence fees

Annual fees for 1800MHz spectrum increased from 31 January 2019 following Ofcom's final statement and introduction of new fees regulations in December 2018. Four mobile network operators including EE sought, through legal proceedings, repayment of 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. On 17 May 2019, the Commercial Court handed down its judgment in the favour of the four mobile network operators and we received a payment of £87m on 21 May 2019. Ofcom has obtained permission to appeal the judgment to the Court of Appeal, and the hearing will take place in late January 2020. We have not recognised this receipt as income in the quarter pending our assessment of the likely outcome of the appeal. This amount is included within provisions in the 30 September 2019 balance sheet.

13 Principal risks and uncertainties

We have processes for identifying, evaluating and managing our risks. Details of our principal risks and uncertainties can be found on pages 46 to 53 of the Annual Report 2019 and are summarised below. All of them have the potential to have an adverse impact on our business, revenue, profits, assets, liquidity and capital resources.

- The risks associated with operating under a wide range of local and international laws, trade sanctions and import and export controls; coupled with the risk of inappropriate and unethical behaviour by our people or associates
- The risks arising from operating as a major data controller and processor of customer information around the world
- The risks arising from our operational activities, and in particular the work of our engineers, that are subject to health and safety regulation and enforcement by national authorities. This also extends to the risks associated with the transmission of radio waves from mobile telephones, transmitters and associated equipment – although according to the World Health Organisation there are no known adverse effects on health from emissions at levels below internationally recognised health and safety standards
- The risks arising from significant and complex transformation programmes that may not deliver the expected benefits and may divert attention away from providing services to customers
- The risks arising from operating in markets which are characterised by: high levels of change; strong and new competition; declining prices and in some markets declining revenue; technology substitution; market and product convergence; customer churn; and regulatory intervention to promote competition and reduce wholesale prices
- The risks associated with some of our activities being subject to significant price and other regulatory controls
- The risks associated with a significant funding obligation in relation to our defined benefit pension schemes, and in particular the BT Pension Scheme
- The risks associated with political and geopolitical trends and incidents, including the uncertainty caused by the UK voting to leave the European Union
- The financial risks common to other major international businesses, including market, credit, liquidity and tax risks
- The risks that could impact the security of our data or the resilience of our operations and services
- The risks associated with complex and high value national and multinational customer contracts
- The risk there could be a failure of any of our critical third-party suppliers to meet their obligations
- The risks associated with not being able to secure sufficient employee engagement to support delivery of our strategic aims

There have been no significant changes to the principal risks and uncertainties in the half year to 30 September 2019. These principal risks and uncertainties continue to have the potential to impact our results or financial position during the remaining six months of the financial year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:
 - a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

Philip Jansen
Group Chief Executive

Simon Lowth
Group Chief Financial Officer

30 October 2019

INDEPENDENT REVIEW REPORT TO BT GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 which comprises Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules (“the DTR”) of the UK’s Financial Conduct Authority (“the UK FCA”).

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Antony Cates
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square, London, E14 5GL

30 October 2019

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.

	Half year to 30 September	
	2019 (IFRS 16 ¹) £m	2018 (IAS 17 ¹) £m
Reported profit for the period	1,068	1,052
Tax	265	288
Reported profit before tax	1,333	1,340
Net interest related finance expense	361	276
Depreciation and amortisation	2,121	1,736
EBITDA	3,815	3,352
EBITDA specific items	40	248
Net other finance expense	70	76
Share of post tax losses (profits) of associates and joint ventures	(2)	(1)
Adjusted² EBITDA	3,923	3,675

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 2

Free cash flow

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

	Half year to 30 September	
	2019	2018
	£m	£m
Cash inflow from operating activities	2,256	964
Tax paid	(83)	(210)
Net cash inflows from operating activities	2,173	754
Net purchase of property, plant and equipment and software	(1,853)	(1,736)
Free cash flow¹	320	(982)
Interest received	16	8
Interest paid	(300)	(236)
Add back pension deficit payments	1,261	2,012
Dividends from associates	(1)	-
Net cash flow from specific items	(67)	277
Remove refund on acquisition of spectrum licence	-	(21)
Payment of lease liabilities ²	(311)	-
Remove cash tax benefit of pension deficit payments	(314)	(84)
Normalised free cash flow¹	604	974

¹ See Glossary on page 2

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, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures, to net debt, is set out below.

	30 September 2019	31 March 2019	30 September 2018
	£m	£m	£m
Loans and other borrowings	17,714	16,876	17,069
Lease liabilities ¹	6,112	-	-
Cash and cash equivalents	(499)	(1,666)	(431)
Current asset investments	(3,727)	(3,214)	(3,359)
	19,600	11,996	13,279
Adjustments:			
To re-translate currency denominated balances at swapped rates when hedged ²	(1,002)	(701)	(1,116)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method ³	(251)	(260)	(268)
Net debt⁴	18,347	11,035	11,895
Lease liabilities	(6,112)	-	-
Net financial debt	12,235	11,035	11,895

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

² The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency

³ Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date

⁴ See Glossary on page 2

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

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

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

	Half year to 30 September 2019
	%
Increase (decrease) in EBITDA (IAS 17)	13.8%
Specific items	(6.7%)
Other finance expense	(0.3%)
IFRS 16 adjustment	(9.6%)
Decrease in adjusted¹ EBITDA (IFRS 16)	(2.8%)

¹ See Glossary on page 2

Forward-looking statements – caution advised

Certain statements in this results release are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: our outlook for 2019/20 including revenue, adjusted EBITDA and free cash flow; our roll out of FTTP; and launch of 5G.

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

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

BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

About BT

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

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We will hold a conference call for analysts and investors in London at 9am today and a simultaneous webcast will be available at www.bt.com/results

We are scheduled to announce the third quarter results for 2019/20 on 30 January 2020.