Financial results

Results for the half year to 30 September 2020
BT Group plc
29 October 2020

This announcement contains inside information

BT Group plc (BT.L) today announced its results for the half year to 30 September 2020.

Key strategic developments:

- All of Openreach's major CP[1] customers now selling FTTP with strong increase in sales in Q2
- Consumer aligns pricing policies across all products and services to CPI plus 3.9% per annum to provide consistent, predictable pricing for new and regrading customers and to support network investment

Operational:

- Strong operating performance despite the ongoing impact of Covid-19
- FTTP rollout reached record levels in Q2 with run-rate of 40k premises per week; 3.5m premises passed to date
- Openreach to stop selling copper products to c.1.8m FTTP-enabled premises by September 2021 latest
- 5G-ready customer base now over 1m and 5G now live in 112 towns and cities
- Strong increase in Consumer FTTP customer base up 60% year on year; fixed and mobile convergence at 21.4%
- Enterprise agrees landmark partnership with Belfast Harbour to deploy 5G Private Network
- Modernisation programme delivers £352m gross annualised savings at a cost of £163m

Financial:

- Revenue relatively resilient at £10,590m, down 8%, primarily due to the impact of Covid-19 including reduced BT Sport revenue and a reduction in business activity in our enterprise units, and declines in legacy products
- Adjusted[2] EBITDA £3,721m, down 5%, driven by the fall in revenue, partly offset by sports rights rebates, savings from our modernisation programme and other cost initiatives including Covid-19 mitigating actions
- Reported profit before tax £1,062m, down 20%, driven primarily by reduced EBITDA
- Net cash inflow from operating activities £2,713m; normalised free cash flow[2] £422m, down 30%, primarily due to reduced EBITDA and offsetting movements in working capital and timing of tax payments
- Capital expenditure £1,969m, up 5%, primarily driven by fixed and mobile network investment
- Lower end of the adjusted[2] EBITDA outlook range for 2020/21 raised to £7.3bn; revised range £7.3bn - £7.5bn
- Adjusted[2] EBITDA outlook of at least £7.9bn in 2022/23, underpins planned reinstated dividend from 2021/22 and value-creating investment plans

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

"BT delivered financial results in-line with expectations for the first half of the year, thanks to strong operational performance during exceptional circumstances. Customer demand during the pandemic has shown how critical our networks have become, and our significant network investments have helped us double the number of Openreach's FTTP orders compared to this time last year and have seen our leading 5G network expand to 112 towns and cities across the UK.

"We continue to invest to make BT more competitive and I'm pleased to see the quality of our products and services improving. At the same time we are firmly on track with the delivery of our modernisation programme and have delivered £352m in cost savings in the first half of the year.

"This performance has given us confidence to raise the lower end of our EBITDA outlook range for this year and publish an EBITDA expectation of at least £7.9bn for 2022/23, with sustainable growth from this level forward. This growth will be driven by the continued recovery from Covid-19, enhanced by sales of our converged and growth products, and by significant savings from our modernisation and cost saving programme. In combination these factors will more than offset legacy product declines.

"The growth in EBITDA underpins the planned reinstatement of our dividend next year whilst ensuring that we can continue to drive value-creating investments in our networks and products."

Half year to 30 September	2020	2019	Change
	£m	£m	%
Reported measures			
Revenue	10,590	11,467	(8)
Profit before tax	1,062	1,333	(20)
Profit after tax	856	1,068	(20)
Basic earnings per share	8.6p	10.8p	(20)
Net cash inflow from operating activities	2,713	2,243	21
Interim dividend	0p	4.62p	
Capital expenditure	1,969	1,882	5
Adjusted measures			
Adjusted[2] Revenue	10,607	11,413	(7)
Adjusted[2] EBITDA	3,721	3,923	(5)
Normalised free cash flow[2]	422	604	(30)
Net debt[2]	17,627	18,347	(£720m)

[1] Communications provider
[2] See Glossary on page 2

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Customer-facing unit results for the half year to 30 September 2020

	Adjusted[1] revenue			Adjusted[1] EBITDA			Normalised free cash flow[1]		
Half year to 30 September	**2020 £m**	2019[2] £m	Change %	**2020 £m**	2019[2] £m	Change %	**2020 £m**	2019[2] £m	Change %
Consumer	**4,873**	5,194	(6)	**1,075**	1,180	(9)	**315**	534	(41)
Enterprise	**2,710**	2,987	(9)	**833**	955	(13)	**474**	622	(24)
Global	**1,916**	2,196	(13)	**289**	304	(5)	**57**	40	43
Openreach	**2,585**	2,536	2	**1,453**	1,417	3	**20**	197	(90)
Other	**12**	14	(14)	**71**	67	6	**(444)**	(789)	44
Intra-group items	**(1,489)**	(1,514)	2	**—**	—	—	**—**	—	—
Total	**10,607**	11,413	(7)	**3,721**	3,923	(5)	**422**	604	(30)
Second quarter to 30 September									
Consumer	**2,511**	2,644	(5)	**574**	592	(3)			
Enterprise	**1,358**	1,504	(10)	**427**	490	(13)			
Global	**926**	1,111	(17)	**148**	164	(10)			
Openreach	**1,299**	1,268	2	**724**	700	3			
Other	**8**	6	33	**35**	19	84			
Intra-group items	**(745)**	(753)	1	**—**	—	—			
Total	**5,357**	5,780	(7)	**1,908**	1,965	(3)	**471**	281	68

[1] See Glossary below
[2] On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result are now reported in Group 'Other' financial results. The prior year comparative for the Enterprise and Other CFU results has been restated to reflect this. Refer to the announcement on 29 June 2020 for further information

Glossary of alternative performance measure

Adjusted	Before specific items. Adjusted results are consistent with the way that financial performance is measured by management and assist in providing an additional analysis of the reporting trading results of the group.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Adjusted EBITDA	EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense.
Free cash flow	Net cash inflow from operating activities after net capital expenditure.
Capital expenditure	Additions to property, plant and equipment and intangible assets in the period.
Normalised free cash flow	Free cash flow after net interest paid and payment of lease liabilities, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.
Net debt	Loans and other borrowings and lease liabilities (both current and non-current), less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on the balance sheet. Currency denominated balances within net debt are translated into sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed.
Specific items	Items that in management's judgement need to be disclosed separately by virtue of their size, nature or incidence. In the current period these relate predominantly to retrospective regulatory charges, restructuring charges linked with our modernisation programme and other cost initiatives, and divestment related items. Further information is provided in note 6 on page 22.

We assess the performance of the group using a variety of alternative performance measures. Reconciliations from the most directly comparable IFRS measures are in Additional Information on pages 30 to 32.

BT Group plc

Overview of the half year and second quarter to 30 September 2020

We are firmly on track with the delivery of the strategy and transformation programmes that we set out in May this year. New ways of working through the pandemic have proved our products and services to be more important to consumers and businesses than ever before.

Building the strongest foundations

Fixed network

Openreach added a further 67 locations to its 'Fibre First' FTTP build programme during the quarter, taking the total number of towns, cities, boroughs, villages and hamlets to more than 560.

Our FTTP rollout reached record levels in the second quarter, building at an average run-rate of 40k premises passed per week. Openreach's FTTP network now reaches 3.5m premises, and during the quarter the milestone of 50% FTTP coverage in Northern Ireland was reached.

Openreach will stop selling copper products to c.1.8m FTTP-enabled premises in 169 exchange areas by September 2021 at the latest. This represents an additional c.500k FTTP-enabled premises and 51 exchange areas to the announcement we made in May.

In July, Openreach expanded its FTTP-only discount offer to fibre locations built in the year to 31 March 2021, which will support adoption of these services for a significantly larger proportion of UK households.

All four major communications providers (CPs) on Openreach's network are now selling FTTP and orders grew 100% compared to Q2 last year. Weekly orders have grown from an average of c.7k pre-lockdown to c.13k in September 2020, while the FTTP customer base has grown 62% year on year, from 404k in Q2 2019 to 655k in the current quarter.

0.6m fibre enabled[1] broadband net connections were completed in the quarter, and more than 1m were completed for the half year. 15.7m customers are now connected to fibre enabled products, and Openreach’s superfast fibre broadband network now reaches over 28.5m premises.

Mobile network

EE won all seven Rootmetrics' awards for UK-wide mobile network performance in the first half of 2020 and leads the way on 5G performance in the UK.

EE's 5G network is now live in 112 UK towns and cities, more than any other operator.

Modernisation

In Q4 2019/20 we announced the next phase of our transformation focussed on simplifying our product portfolio, simplifying and automating our customer journeys, moving to a modern, modular IT architecture, and migrating customers from our legacy networks to our modern FTTP and 5G networks.

The modernisation programme will deliver annualised gross cost savings of £1bn per annum by March 2023 and £2bn per annum by March 2025, with a total £1.3bn one-off cost to achieve across the five years.

We delivered savings of £352m in the first half year of the programme, with an associated cost of £163m. During the half year, programme activities included continuing to simplify our organisational structure, standardise and automate our end to end processes, and further leverage shared services. We retired eight legacy broadband products out of a total of 25, and expect to retire the majority of the remainder by the end of the year. We doubled the percentage of Ethernet orders which are fast-tracked to use existing nearby fibre, to circa 40% of all orders. On average these circuits now take just 12 days to deliver versus an overall average of 42 days. We also signed a number of deals with leading software vendors to supply our modular IT architecture.

Alongside our modernisation programme, we continued to take short-term actions to challenge every element of our cost base, to reduce discretionary costs and to mitigate the financial impacts of Covid-19. In particular we have cancelled or delayed planned recruitment across BT; worked with our suppliers to identify opportunities to deliver significant and sustainable cost reductions along the supply chain; focused and rephased our marketing spend; and rigorously reviewed and reprioritised discretionary spend on travel, training, and external fees.

During the period there was a total net reduction of 3,600 full-time equivalent roles across the group.

Divestments

On 1 October we completed the sale of selected domestic operations and infrastructure in Latin America.

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

Consultation on simplification of severance terms

BT currently has a number of different severance arrangements that vary by manager or team member. To address issues of fairness and consistency, we have started a consultation process to move to a single, competitive set of terms that will apply equally to all UK colleagues.

At this time, no decisions have been made. We'll be reviewing feedback throughout the consultation, including any counter proposals we receive, and we'll be talking to the unions (CWU and Prospect) with the aim of reaching agreement to any changes.

Creating standout customer experiences

We've demonstrated our progress in creating standout customer experiences with Group NPS[1] increasing by 4.2 points when compared to the prior year baseline, a 17th successive quarter of growth.

Customer propositions

Our 'best network' offerings have seen strong growth in the year to date. EE's 5G ready customer base has increased to over 1m, leaving the business well positioned for any new 5G device launches. During Q2 EE launched the exclusive 'Full Works Plan for iPhone' where customers receive inclusive access to Apple Music, Apple TV+ and Apple Arcade, in one mobile plan.

In Q2 Consumer's FTTP customer base grew by 86k to 598k, our largest quarterly increase to date. Nearly 40% of BT broadband customers are on our converged BT Halo product.

Price rises for new and regrading customers have now been standardised across all Consumer products and brands at CPI+3.9%. This will provide consistent, predictable pricing and support continued investment in our leading networks and UK based customer services.

We have largely completed our commitment to upgrade 700,000 home and business customers to superfast broadband at no extra charge for customers.

BT Sport is now available on more platforms including Fire TV, Android TV and Roku, and our Monthly Pass enables quick, no-contract access on new devices. Online live streams (web and app-based) for BT Sport were at their highest ever level in August 2020 during a busy month for BT Sport driven by the UEFA Champions League Finals.

We're committed to covering more women's football and will show at least 22 live Barclays FA Women's Super League matches as well as coverage of the FA Women's Continental League Cup and Women's FA Cup. This is in addition to our existing coverage of men's Premier League and European competitions.

We've seen a positive early reaction to the launch of our Halo for Business campaign at the start of the quarter, which has led to an uplift in the proportion of customers taking a bundle that includes a digital phone line. The number of broadband customers taking 4G Assure was strong, continuing to account for more than half of new SME broadband sales.

In August we announced an expansion of key security partners to help provide industry-leading managed security services to large corporate and Global customers.

Global announced the launch of a new range of managed security and advisory services to support Microsoft Azure Sentinel. These are the first in a series of managed security products offered by BT to support Microsoft's cloud-based applications.

We further expanded our portfolio of collaboration services by launching Zoom Meetings with BT on our new, cloud-optimised platform, offering global organisations enhanced managed services and security.

Service

Latest published Ofcom BT broadband complaints reduced 20% year on year, halving over the last two years and for four consecutive quarters have been at or below the industry average. EE mobile complaints to Ofcom were unchanged year on year remaining equal lowest for mobile network operators. EE landline complaints reduced by 50% year on year and are now the lowest of any operator. Ofcom's annual independent customer service report of major telecoms providers recognised EE as joint 1st for overall satisfaction with service in mobile and BT as leading in satisfaction and reliability of overall service for landline.

Covid-19 continued to have a major impact on Openreach, with customer expectations higher than ever due to an increasing reliance on home broadband and the move to working from home. This, along with summer storms, drove significantly higher levels of repair intake. Openreach saw total customer fault volumes 5.5% higher in the year to date when compared to the equivalent period last year.

Throughout the quarter Openreach took steps to increase capacity to deliver record repair completions and bring customers back into service safely and quickly to support a nation working from home. Copper and fibre faults were repaired on time 83.5% of the time; missed appointments, attributable to Openreach, occurred just 2.7% of the time; and 94.3% of customers were offered a first appointment for provision within 10 days. Support on critical national infrastructure delivery and maintenance of customer service was recognised in best ever perception results for copper, fibre and Ethernet access.

Digital

We continue to see significant changes in how customers are buying our products and services. Broadband and mobile digital sales grew by 66% in the year to date. Channel share in our SME market increased by a quarter year on year with 69% of all customer touchpoints now taking place online. Satisfaction with our digital channels improved by c.3% compared to this time last year. We continue to invest in a portfolio of digital solutions to meet customer needs.

Regulation

Covid-19 response

We continue to brief Ofcom regularly on our response to Covid-19. At 30 September, no elements of the contractual MBORC (Matters Beyond Our (Openreach's) Reasonable Control) declared by Openreach in Q4 last year due to Covid-19 remained in place. This position remains under regular review, with Ofcom kept informed of developments.

Wholesale Fixed Telecoms Market Review (WFTMR) 2021-2026

In July, Ofcom published a follow-up consultation on the approach to investment in Area 3 and Openreach's commitment to build there. Ofcom proposes to extend the fibre "regulatory enablers" into Area 3. We have provided our response to this follow-up consultation to Ofcom which will be published on our website in due course. While we broadly agree with the pricing approach proposed for 2021-26, we have asked Ofcom for greater clarity about their proposed approach from 2026 onwards. In particular, it is not clear how the proposed regime will leave sufficient upside to compensate investors for the downside risks incurred in committing to the investment.

We expect Ofcom to finalise their overall WFTMR proposals prior to April 2021.

Wholesale Voice Markets Review 2021-2026

In August, Ofcom published their consultation on the Wholesale Voice Markets Review 2021-26. The consultation covers termination rates, wholesale call origination and a range of issues related with IP interconnection and migration. We have provided our response to Ofcom which will be published on our website in due course. We expect a final statement from Ofcom in December ahead of the new rules coming into force in April 2021.

Broadband universal service obligation (USO)

In October, Ofcom opened an investigation into BT's compliance with its obligations as a USO provider. Ofcom is gathering evidence and expects to determine its next steps by the end of the year. We strongly disagree with Ofcom's assessment of our delivery of the USO. We are disappointed that they have opened an investigation when we're fully committed to working with both Ofcom and the Government to find better ways to connect the hardest to reach. There are fixed wireless networks available (from BT and other providers) which extend decent broadband to just over 400,000 premises, and we are already building new fixed connections in 4,000 premises where fixed wireless is not suitable.

Spectrum auction

Ofcom indicated in their annual plan update published in September that the UK 700MHz and 3.6GHz spectrum auction process could begin in Q3 2020/21, with bidding starting in January 2021. BT expects to participate in the auction to support its 5G leadership position.

Consumer fairness

We will formally report to Ofcom on our adherence to their Fairness for Customers Commitments in the next month, in preparation for Ofcom's industry report planned for Q4 2020/21. Further to Ofcom's broadband pricing statement in July, we expect them to publish an "affordability" review in the autumn.

We continue to take action to address the CMA's "loyalty penalty" concerns. New and regrading customers' annual price rise will be CPI+3.9% across all Consumer brands and products with the first of these increases effective from 31 March 2021. We also committed to carrying out annual account reviews for vulnerable customers, to ensure they are on the best package to suit their needs.

European Electronic Communications Code (EECC)

In October, Ofcom published their final statement regarding implementation of the end-user rights chapter of the EECC. The final requirements have largely remained the same as proposed, with some additional guidance on contract termination and pre-contract information. Most provisions must be implemented by December 2021, but providers have until June 2022 to implement regulations related to contract termination rights and pre-contract information.

We also expect two further consultations in Q3 2020/21 on the consistent application of new customer and service definitions and the switching process for broadband services. Switching requirements will need to be implemented by December 2022. Ofcom will also publish an update in due course on the next steps on their proposals for an Emergency Relay Service.

EE outage investigation

Ofcom decided to close the investigation they opened in September 2019 into a mobile network outage in May 2019, with no further updates.

Other matters

US Securities and Exchange Commission (SEC) deregistration

On 24 September, BT filed a Form 15F with the US SEC to deregister all of its registered equity securities and terminate its US SEC reporting obligations. The SEC has 90 days in which to object.

Brexit

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

Financial outlook

Since providing our outlook at our first quarter trading update, we have made good progress on our modernisation and cost saving programme and, despite the challenging and uncertain macroeconomic environment, we have seen robust demand for our products. As a result, we have increased the lower end of our adjusted EBITDA outlook range for this year, to a range of £7.3bn to £7.5bn from £7.2bn to £7.5bn.

Despite the positive move in our EBITDA outlook, our range for normalised cash flow outlook remains unchanged at £1.2bn to £1.5bn due to expected increases in stock levels to manage through the end of the Brexit transition period, and due to a final purchase of necessary Huawei equipment, including spares, prior to the ban on purchasing new Huawei 5G kit from 31 December 2020.

We continue to expect adjusted revenue to be down between 5% and 6%, and capital expenditure of between £4.0bn and £4.3bn.

We are firmly on track with the delivery of the strategy and transformation programmes that we set out in May this year. As a result, we expect EBITDA in the financial year ending March 2023 to be at least £7.9bn, with sustainable growth from this level forward.

This growth will be driven by the recovery from Covid-19, enhanced by sales of our converged and growth products, and by significant savings from our modernisation and cost saving programme. In combination these factors will more than offset legacy product declines.

The growth in EBITDA will underpin the planned reinstatement of our revised dividend whilst ensuring that we can continue to drive value-creating investments in our networks and products.

	2020/21 outlook	2022/23 outlook
Change in adjusted[1] revenue	**Down 5% - 6%**	**-**
Adjusted[1] EBITDA	**£7.3bn - £7.5bn**	**> £7.9bn**
Capital expenditure[1]	**£4.0bn - £4.3bn**	**-**
Normalised free cash flow[1]	**£1.2bn - £1.5bn**	**-**

We take into account a number of different economic forecasts when building our business plan, including the Bank of England's. Based on this approach, our plans are based on expectations for a deep recession in 2020 followed by a recovery in 2021, albeit not back to pre Covid-19 levels, and long term trend growth from 2022. We assume an increase in inflation in 2021 and 2022 towards the Bank of England's target of 2% per annum. We consider a range of scenarios either side of these expectations.

Dividend

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

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

[1] See Glossary on page 2

Key operational metrics from our customer-facing units for the second quarter to 30 September 2020

Key operational metrics used by our customer-facing units are as follows:

Second quarter to 30 September	2020	2019
Consumer		
Average revenue per customer (ARPC) (£ per month)		
- Fixed	**36.1**	38.5
- Broadband	**38.5**	41.4
- Postpaid mobile	**19.6**	20.8
- Prepaid mobile	**7.9**	8.1
Monthly churn		
- Fixed[1]	**1.0%**	1.1%
- Broadband	**1.1%**	1.2%
- Postpaid mobile	**1.1%**	1.2%
Best network ('000)		
- FTTP connections	**598**	373
- 5G ready	**1,233**	15
Convergence		
- Revenue generating units per address[2]	**2.42**	2.39
- Fixed & mobile convergence	**21.4%**	20.7%
Enterprise		
Number of products/customers ('000)		
- Voice lines	**1,669**	1,876
- VoIP seats	**905**	748
- Retail broadband lines	**737**	749
- Wholesale broadband lines	**696**	774
- WAN circuits	**85.0**	85.2
- Ethernet circuits	**51.9**	52.0
- Private circuits	**19.4**	28.8
- Mobile customers	**3,807**	3,619
- MVNO customers	**3,988**	3,730
Call minutes (millions)		
- Retail	**787**	803
- Wholesale	**701**	830
Fibre enabled share of broadband base		
- Superfast	**50.3%**	48.3%
- Ultrafast	**1.1%**	0.5%
Rolling 12-month retail order intake (£m)	**3,199**	3,102
Rolling 12-month wholesale order intake (£m)	**1,125**	1,132
Global		
Rolling 12-month order intake (£m)	**4,057**	3,694
Openreach		
Network deployment ('000 premises passed)		
Superfast inc. ultrafast	**28,584**	27,695
- Ultrafast Gfast	**2,831**	2,417
- Ultrafast FTTP	**3,500**	1,810

[1] Restated during Q2 2020/21 to remove inter-brand churn from Q1 2019/20 onwards
[2] Revenue generating units per address now includes BT Sport only customers from Q1 2019/20

Group results for the half year to 30 September 2020

Income statement

Reported revenue was £10,590m, down 8%, due primarily to the impact of Covid-19 including reduced BT Sport revenue and a reduction in business activity in our enterprise units. The decline in revenue was also driven by ongoing legacy product declines in our enterprise businesses and a later than normal iPhone product launch, but was partially offset by higher rental bases of fibre enabled products and Ethernet in Openreach.

Reported operating costs were £9,136m, down 6%, mainly driven by lower product costs and commissions, sports rights rebates, savings from our modernisation programme and other cost initiatives including Covid-19 mitigating actions such as short-term reductions in discretionary spend. This was partly offset by continued investment in customer experience and higher operating costs in Openreach. Adjusted[1] EBITDA of £3,721m was down 5%, or £202m.

Reported profit before tax of £1,062m was down 20%, or £271m, primarily reflecting the decline in adjusted EBITDA, higher depreciation and amortisation, and higher non-specific finance expense.

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

Specific items resulted in a net charge after tax of £94m (H1 2019/20: £88m). The main components are restructuring costs of £155m (H1 2019/20: £144m), property rationalisation costs of £8m (H1 2019/20: gains of £111m reflecting the gain on sale of BT Centre), regulatory charge of £18m (H1 2019/20: release of £55m), and interest expense on pensions of £9m (H1 2019/20: £72m); offset by a net divestment-related items credit of £66m including profit on disposal of our Spanish operations (H1 2019/20: loss of £67m) and a tax credit on specific items of £30m (H1 2019/20: £24m).

Tax

The effective tax rate was 19.4% on reported profit and 19.9% on adjusted[1] profit, based on our current estimate of the full year effective tax rate.

Capital expenditure

Capital expenditure was £1,969m (H1 2019/20: £1,882m). Network investment was £1,098m, up 9%[2]. This was driven by higher fixed network and mobile network spend, reflecting continued investment in FTTP deployment and the mobile network; offset by a decrease in core network spend. Other capital expenditure components were down 1%[2] with £455m spent on customer-driven investments, £364m on systems and IT, and £52m spent on non-network infrastructure.

Free cash flow

Net cash inflow from operating activities was up £470m to £2,713m, mainly driven by reduced pension deficit payments compared to last year offset by the reduced operating profit.

Normalised free cash flow[1] was down £182m to £422m due to reduced EBITDA and offsetting movements in working capital and timing of tax payments. A reconciliation to our free cash flow is shown in Additional Information on page 31.

The net cash cost of specific items adjusted from normalised free cash flow was £221m (H1 2019/20: £67m net cash receipts), primarily relating to restructuring payments of £198m (H1 2019/20: £190m) and property rationalisation payments of £10m (H1 2019/20: £16m). Net cash receipts in H1 2019/20 reflected one-off cash inflows relating to £210m income on disposal of BT Centre and £87m annual licence free refund from Ofcom. In addition, net cash proceeds from divestments were £166m (H1 2019/20: £7m).

Net debt and liquidity

Net financial debt (excluding lease liabilities) at 30 September 2020 was flat at £11.3bn when compared to net financial debt at 31 March 2020, with net cash inflow from operating activities and net proceeds from disposal of subsidiaries offsetting net capital expenditure, net interest payments and payment of lease liabilities.

Net debt[1] including lease liabilities was £17.6bn at 30 September 2020, £0.4bn lower than at 31 March 2020 (£18.0bn). The difference to the movement in net financial debt principally reflects the lease payments.

At 30 September 2020 the group held cash and current investment balances of £6.5bn. The current portion of loans and other borrowings of £2.7bn include term debt of £1.4bn repayable during 2020/21. Our £2.1bn facility, which matures in March 2025, remains undrawn at 30 September 2020.

During the half year, and following our recommitment to our credit rating target of BBB+ and minimum rating of BBB, all of the major agencies confirmed their ratings at BBB or equivalent.

[1] See Glossary on page 2
[2] Capital expenditure by spend type reported in Q2 2019/20 has been re-presented between categories to reflect an improved mapping process

Pensions (Note 7 to the condensed consolidated financial statements)
The IAS 19 pension position at 30 September 2020 was a deficit of £4.0bn net of tax (£4.9bn gross of tax), compared with £1.0bn net of tax (£1.1bn gross of tax) at 31 March 2020. The increase in the gross deficit of £3.8bn since 31 March 2020 mainly reflects a fall in the real discount rate, partially offset by higher than expected asset returns, deficit contributions over the period, and a change of methodology used in the discount rate model.

At 30 September 2020, the discount rate model has been updated to use a wider universe of corporate bonds to derive the yield curve. A key difference is the inclusion of certain special purpose vehicle (SPV) corporate bonds that remain consistent with the requirements of IAS 19. The revised model is a standard approach developed by our external actuary. The impact of this change is a £0.9bn reduction in the BT Pension Scheme (BTPS) IAS 19 liabilities.

In August 2020 a consultation on reforming RPI closed. As no new information has been released and no change in market behaviour has been observed, there is no change proposed to our judgement in setting inflation assumptions. The result of the consultation is expected by the end of the calendar year.

In October 2020 a consultation was launched regarding future public sector pension increases, which may have a knock-on impact on the BTPS (the consultation will provide further clarity to information provided in our Q3 2019/20 results on this subject). Various options are proposed in the consultation which are likely to lead to extra pension liability (estimated to be a maximum increase of low hundreds of millions GBP). The extent of the impact will be known when the results of the consultation are released.

The BTPS funding valuation as at 30 June 2020 is currently in progress and we are considering a number of options for funding the deficit. These options include considering whether there are alternative approaches to only making cash payments, including arrangements that would give the BTPS a prior claim over certain BT assets. We are aiming to complete discussions in the first half of calendar year 2021.

Operating review

Consumer

	Second quarter to 30 September				Half year to 30 September			
	2020	2019	Change		**2020**	2019	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[1]	**2,511**	2,644	(133)	(5)	**4,873**	5,194	(321)	(6)
Operating costs[1]	**1,937**	2,052	(115)	(6)	**3,798**	4,014	(216)	(5)
EBITDA[2]	**574**	592	(18)	(3)	**1,075**	1,180	(105)	(9)
Depreciation & amortisation					**635**	631	4	1
Operating profit[1]					**440**	549	(109)	(20)
Capital expenditure					**505**	455	50	11
Normalised free cash flow					**315**	534	(219)	(41)

Revenue declined in the half year, predominately due to the continued impact of Covid-19 with sport, including pubs & clubs, and roaming revenue significantly down, and the loss of retail store sales in Q1. A declining base of voice only customers and a later iPhone product launch has also impacted revenues.

EBITDA for the half year declined driven by lower revenues, continued investment in the fairness commitments made to Ofcom and increased bad debt. This has been partially offset by sports rights rebates and tight management of costs, including reduced headcount. No further material sports rights rebates are expected in the second half of the year.

Capital expenditure was up 11%, due to higher network and equipment investment. Normalised free cash flow was down 41% due to lower EBITDA and higher receivables from timing of sports rights rebates.

Covid-19 will continue to affect Consumer with further impacts from lower sport revenue from pubs & clubs, more price-conscious customers, reduced roaming activity and increased costs from major handset launches. Q2 broadband and mobile churn both landed at 1.1%, each improving 0.1ppt year on year, linked to our focus on pricing, market competitiveness, fairness and also aided by lower market activity.

Our 5G ready customer base has increased to over 1m and 5G is now live in 112 UK towns and cities, more than any other operator, leaving the business well positioned for any new 5G device launches including the recent iPhone 12. During Q2 EE launched the exclusive 'Full Works Plan for iPhone' where customers receive inclusive access to Apple Music, Apple TV+ and Apple Arcade, in one mobile plan.

In Q2 our FTTP customer base grew by 86k to 598k, our largest quarterly increase to date. Nearly 40% of BT broadband customers are on our converged BT Halo product. Online live streams (web and app-based) for BT Sport were at their highest ever level in August 2020 during a busy month for BT Sport driven by the UEFA Champions League Finals.

[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

Enterprise

	Second quarter to 30 September				Half year to 30 September			
	2020	2019[3]	Change		**2020**	2019[3]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[1]	**1,358**	1,504	(146)	(10)	**2,710**	2,987	(277)	(9)
Operating costs[1]	**931**	1,014	(83)	(8)	**1,877**	2,032	(155)	(8)
EBITDA[2]	**427**	490	(63)	(13)	**833**	955	(122)	(13)
Depreciation & amortisation					**367**	352	15	4
Operating profit[1]					**466**	603	(137)	(23)
Capital expenditure					**229**	229	—	—
Normalised free cash flow					**474**	622	(148)	(24)

Revenue decreased mainly due to reduced business activity across Enterprise as a result of Covid-19, as well as ongoing declines in our legacy products. Excluding the divestments of BT Fleet Solutions and Tikit in the prior year our revenue for the half year was down 7%.

Total fixed revenue was down 7% due to declines in legacy calls and lines, partially offset by growth in new products. Retail mobile revenue was down 13%, reflecting ongoing intense mobile competition and the impact of Covid-19, which affected both domestic and international call volumes, and led to a lower level of sales and upgrades. This was partially offset by an increase in Wholesale mobile revenue of 16%.

We expect to see further impacts of Covid-19 from business insolvencies, particularly among our SME customers, although the size of the impact will depend on the level and length of Government support. This also affects Wholesale which indirectly serves SMEs.

Operating costs were lower mainly due to the declines in revenue as well as cost transformation. We continue to focus our efforts on reducing our cost base through supplier and product rationalisation. We have over 500 individual cost reduction initiatives, and during the quarter introduced a number of measures to further tighten our third party costs.

EBITDA was down 13%. Excluding the divestments of BT Fleet Solutions and Tikit in the prior year our EBITDA for the half year was down 12%.

Capital expenditure was flat. Normalised free cash flow decreased 24%, with H1 19/20 benefitting from an upfront cash payment of c.£100m received as part of our deal with Cellnex.

Retail order intake increased 3% to £3.2bn and Wholesale order intake decreased 1% to £1.1bn on a 12-month rolling basis. This includes a five year extension to our MVNO agreement with utilities service provider Utility Warehouse.

We continue to support small businesses across the UK through BT's Small Business Support Scheme. We recently announced a partnership with Square to help EE's small business customers securely accept contactless mobile payments and launched a bursary scheme to give UK start-ups six months' free fibre broadband, digital phone line and mobile bundles. The bursary includes Halo for Business and will be made available to 1,000 eligible companies initially.

We have extended our 5G development programme for our enterprise customers and have agreed a new landmark partnership with Belfast Harbour to deploy a 5G Private Network. We have also partnered with Stirling University on its 'Living Laboratory' project which sees BT helping to create a state of the art environmental monitoring system using 5G and complementary tech.

[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 2019/20 results release have been restated for the changes detailed on footnote 2 on page 2

Global

	Second quarter to 30 September				Half year to 30 September			
	2020	2019	Change		**2020**	2019	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[1]	**926**	1,111	(185)	(17)	**1,916**	2,196	(280)	(13)
Operating costs[1]	**778**	947	(169)	(18)	**1,627**	1,892	(265)	(14)
EBITDA[2]	**148**	164	(16)	(10)	**289**	304	(15)	(5)
Depreciation & amortisation					**195**	247	(52)	(21)
Operating profit[1]					**94**	57	37	65
Capital expenditure					**81**	96	(15)	(16)
Normalised free cash flow					**57**	40	17	43

Covid-19 negatively impacted revenue in the half year but did not materially impact EBITDA as lower non-contracted business and milestone slippage were offset by higher conferencing volumes and cost mitigation. Looking forward, we are seeing a reduction in spending and a more cautious approach from our multinational customers resulting in cancellations and delays to purchasing cycles which will negatively impact revenue and EBITDA in the second half of the year.

Revenue for the half year was down 13% reflecting the impact of Covid-19, divestments, legacy portfolio declines and a £16m negative impact from foreign exchange movements. Revenue excluding divestments and foreign exchange was down 10%.

EBITDA for the half year was down 5% reflecting the impact of divestments, prior year favourable one-offs and a £4m negative impact from foreign exchange movements. EBITDA, excluding divestments, one-offs and foreign exchange was up 6%. The negative impact of Covid-19 on revenue was more than offset by lower operating costs reflecting ongoing transformation and Covid-19 mitigation actions.

Depreciation and amortisation was down 21% due to the impact of divestments and declines in capital investment over the last few years in line with our strategy to become an asset light business. Operating profit was up £37m.

Capital expenditure was down due to lower project spend and the impact of divestments. Normalised free cash flow improved by £17m, primarily reflecting lower capital expenditure.

Order intake in the quarter was £0.8bn, down 43% due to a number of large renewals in the prior year and the impact of Covid-19. On a rolling 12-month basis it was £4.1bn, up 10% year on year.

On 1 October we completed the sale of selected domestic operations and infrastructure in Latin America.

[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

Openreach

	Second quarter to 30 September				Half year to 30 September			
	2020	2019	Change		**2020**	2019	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[1]	**1,299**	1,268	31	2	**2,585**	2,536	49	2
Operating costs[1]	**575**	568	7	1	**1,132**	1,119	13	1
EBITDA[2]	**724**	700	24	3	**1,453**	1,417	36	3
Depreciation & amortisation					**832**	838	(6)	(1)
Operating profit[1]					**621**	579	42	7
Capital expenditure					**1,072**	1,015	57	6
Normalised free cash flow					**20**	197	(177)	(90)

Revenue growth for the half year was driven by higher rental bases in fibre[3], up 18% and Ethernet, up 9%. This was partially offset by decline in legacy copper products. The first quarter in particular was impacted by Covid-19 driving lower provision and upgrade activity, partly offset by lower churn.

EBITDA grew 3% year on year with revenue growth partially offset by higher operating costs. The increase in operating costs was primarily driven by investment in people to deliver better service, partially offset by ongoing efficiency programmes and reductions in discretionary spend.

Depreciation and amortisation was broadly flat. Operating profit grew by 7% to £621m.

Capital expenditure was up 6% due to investments in the network, predominantly fibre enabled infrastructure, partially offset by efficiency savings.

Normalised free cash flow was down 90% driven by higher capital expenditure and timing of working capital.

Delivering a standout service for Openreach's customers was a challenge in the first half of the year, impacted by Covid-19, bad weather and increased home working. Despite this Openreach delivered record levels of engineering work in support of a nation working from home during the pandemic.

Openreach continues to build FTTP at pace with an average of 40k premises passed per week in the second quarter. To support accelerating build we have concluded one of the biggest tender processes in Openreach's history, with nine engineering partners contracted in the quarter to support our build. These tenders are key to the commitment to build to 20m premises by the mid-to-late 2020s, subject to enablers.

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 FTTP, FTTC and Gfast (including Single Order migrations)

Condensed consolidated financial statements

Group income statement

For the half year to 30 September 2020

	Note	Before specific items ('Adjusted')	Specific items (note 6)	Total (Reported)
		£m	£m	£m
Revenue	3,4	10,607	(17)	**10,590**
Operating costs	5	(9,038)	(98)	**(9,136)**
Operating profit		1,569	(115)	**1,454**
Finance expense		(393)	(9)	**(402)**
Finance income		9	—	**9**
Net finance expense		(384)	(9)	**(393)**
Share of post tax profit of associates and joint ventures		1	—	**1**
Profit before tax		1,186	(124)	**1,062**
Tax		(236)	30	**(206)**
Profit for the period		950	(94)	**856**
Earnings per share				
- basic		9.6p	(1.0)p	**8.6p**
- diluted		9.4p	(0.9)p	**8.5p**

For the half year to 30 September 2019

	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 statement of comprehensive income

	Half year to 30 September	
	2020	2019
	£m	£m
Profit for the period	**856**	1,068
Other comprehensive income (loss)		
Items that will not be reclassified to the income statement:		
Remeasurements of the net pension obligation	**(4,089)**	(83)
Tax on pension remeasurements	**777**	14
Items that have been or may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**(9)**	88
Fair value movements on assets at fair value through other comprehensive income	**—**	(12)
Movements in relation to cash flow hedges:		
– net fair value gains (losses)	**(30)**	659
– recognised in income and expense	**(247)**	(381)
Tax on components of other comprehensive income that have been or may be reclassified	**55**	(50)
Other comprehensive profit (loss) for the period, net of tax	**(3,543)**	235
Total comprehensive income for the period	**(2,687)**	1,303

Group balance sheet

	30 September 2020	31 March 2020
	£m	£m
Non-current assets		
Intangible assets	13,660	13,889
Property, plant and equipment	18,840	18,474
Right-of-use assets	5,113	5,391
Derivative financial instruments	1,926	2,229
Investments	19	20
Associates and joint ventures	10	12
Trade and other receivables	353	481
Contract assets	284	279
Deferred tax assets	999	300
	41,204	41,075
Current assets		
Programme rights	697	310
Inventories	235	300
Trade and other receivables	2,963	2,704
Contract assets	1,450	1,442
Assets held for sale[1]	112	268
Current tax receivable	67	67
Derivative financial instruments	311	260
Investments	5,667	5,092
Cash and cash equivalents[2]	801	1,549
	12,303	11,992
Current liabilities		
Loans and other borrowings[2]	2,651	2,842
Derivative financial instruments	75	46
Trade and other payables	5,782	5,794
Contract liabilities	952	972
Lease liabilities	838	812
Liabilities held for sale[1]	112	211
Current tax liabilities	103	21
Provisions	298	288
	10,811	10,986
Total assets less current liabilities	**42,696**	42,081
Non-current liabilities		
Loans and other borrowings	16,512	16,492
Derivative financial instruments	917	966
Contract liabilities	180	179
Lease liabilities	5,425	5,748
Retirement benefit obligations	4,856	1,140
Other payables	763	754
Deferred tax liabilities	1,521	1,608
Provisions	456	431
	30,630	27,318
Equity		
Share capital	499	499
Share premium	1,051	1,051
Own shares	(134)	(237)
Merger reserve	998	2,572
Other reserves	888	1,119
Retained earnings	8,764	9,759
Total equity	**12,066**	14,763
	42,696	42,081

[1] Assets and liabilities held for sale at 30 September 2020 relate to our domestic operations in France, and selected domestic operations and infrastructure in 16 countries in Latin America

[2] Bank overdrafts of £116m at 30 September 2020 (31 March 2020: £183m) are included within loans and other borrowings

Group statement of changes in equity

For the half year to 30 September 2020

	Share Capital	Share Premium	Own Shares	Merger Reserve	Other Reserves	Retained earnings	Total Equity
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2020	**499**	**1,051**	**(237)**	**2,572**	**1,119**	**9,759**	**14,763**
Profit for the period	—	—	—	—	—	856	856
Other comprehensive income (loss) before tax	—	—	—	—	(39)	(4,089)	(4,128)
Tax on other comprehensive (loss) income	—	—	—	—	55	777	832
Transferred to the income statement	—	—	—	—	(247)	—	(247)
Comprehensive income	—	—	—	—	(231)	(2,456)	(2,687)
Transfer to realised profit[1]	—	—	—	(1,574)	—	1,574	—
Dividends to shareholders	—	—	—	—	—	—	—
Share-based payments	—	—	—	—	—	(8)	(8)
Net buyback of own shares	—	—	103	—	—	(105)	(2)
Other Movements	—	—	—	—	—	—	—
At 30 September2020	**499**	**1,051**	**(134)**	**998**	**888**	**8,764**	**12,066**

For the half year to 30 September 2019

	Share Capital	Share Premium	Own Shares	Merger Reserve	Other Reserves	Retained earnings	Total Equity
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]	—	—	—	(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] In 2016 the merger reserve was credited with £7,424m net of £3m issue costs in relation to the issue of shares used as part consideration of the acquisition of EE. During the period intercompany loans associated with the transaction were fully settled by qualifying consideration of £1,574m (H1 2019/20: £1,575m) and equivalent balances were transferred from merger reserve to realised profit. The remaining merger reserve balance of £998m relates to the November 2001 group reorganisation that resulted in the creation of BT Group plc.

Group cash flow statement

For the half year to 30 September

	Half year to 30 September	
	2020 **£m**	2019 £m
Cash flow from operating activities		
Profit before taxation	1,062	1,333
Share of post tax loss (profit) of associates and joint ventures	(1)	(2)
Net finance expense	393	431
Operating profit	**1,454**	1,762
Other non-cash charges[1]	25	45
Loss (profit) on disposal of business	(75)	67
Profit on disposal of property, plant and equipment	—	(115)
Depreciation and amortisation	2,152	2,121
(Increase) decrease in inventories	65	53
(Increase) decrease in programme rights	(85)	31
(Increase) decrease in trade and other receivables	(108)	(25)
(Increase) decrease in contract assets	(13)	(75)
Increase (decrease) in trade and other payables[1]	(267)	(471)
Increase (decrease) in contract liabilities	(21)	104
Decrease in other liabilities[2]	(370)	(1,173)
Increase in provisions	33	2
Cash generated from operations[1]	**2,790**	2,326
Income taxes paid	(77)	(83)
Net cash inflow (outflow) from operating activities[1]	**2,713**	2,243
Cash flow from investing activities		
Interest received	6	16
Dividends received from associates and joint ventures	4	(1)
Proceeds on disposal of subsidiaries, associates and joint ventures	166	7
Acquisition of associates and joint ventures	—	(4)
Proceeds on disposal of current financial assets	5,973	6,216
Purchases of current financial assets	(6,532)	(6,717)
Proceeds on disposal of non-current asset investments	—	—
Proceeds on disposal of property, plant and equipment	1	214
Purchases of property, plant and equipment and software	(2,086)	(2,067)
Net cash inflow (outflow) from investing activities	**(2,468)**	(2,336)
Cash flow from financing activities		
Equity dividends paid	(2)	(1,048)
Interest paid[1]	(409)	(370)
Repayment of borrowings[3]	—	(811)
Proceeds from bank loans and bonds	—	1,257
Payment of lease liabilities	(363)	(311)
Cash flows from derivatives related to net debt	(147)	277
Proceeds from issue of own shares	1	1
Repurchase of ordinary share capital	(3)	(86)
Net cash inflow (outflow) from financing activities[1]	**(923)**	(1,091)
Net increase (decrease) in cash and cash equivalents	**(678)**	(1,184)
Opening cash and cash equivalents[4]	1,409	1,594
Net (decrease) increase in cash and cash equivalents	(678)	(1,184)
Effect of exchange rate changes	(3)	11
Closing cash and cash equivalents[4]	**728**	421

[1] Consistent with the full year results, interest on lease liabilities is now included within interest paid, and the notional interest charge reclassified from other non-cash charges to movement in trade and other payables. Interest on lease liabilities of £70m was previously presented as a separate line item within cash generated from operations in the Q2 2019/2020 results release.
[2] Includes pension deficit payments of £425m for the half year to 30 September 2020 (H1 2019/20: £1,261m)
[3] Repayment of borrowings includes the impact of hedging
[4] Net of bank overdrafts of £116m at 30 September 2020 (31 March 2020: £183m, 30 September 2019: £78m, 31 March 2019: £72m), and including £43m cash and cash equivalents classified as held for sale (31 March 2020: £43m, 30 September 2019: £nil, 31 March 2019: £nil)

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 2020 and 2019 together with the balance sheet at 31 March 2020. The financial statements for the half year to 30 September 2020 have been reviewed by the auditors and their review opinion is on page 29. 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 2020 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).

The directors are satisfied that the group has adequate resources to continue in operation for a period of at least twelve months from the date of this report. Consequently, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements for the half year to 30 September 2020. When reaching this conclusion, the directors took into account:

- The group's overall financial position (including trading during the half year and ability to repay term debt as it matures without recourse to refinancing);
- Exposure to principal risks (including severe but plausible downsides); and
- The ongoing impact of Covid-19 (which has affected trading but has not had a significant impact on the group's ability to generate cash).

At 30 September 2020, the group had cash and cash equivalents of £0.8bn and current asset investments of £5.7bn. The group also had access to committed borrowing facilities of £2.1bn. These facilities were undrawn at period-end and are not subject to renewal until March 2025.

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 2020 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 2020 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

No new or amended accounting standards that became effective during the year have had 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

On 1 April 2020, Supply Chain and Pelipod, which serve several parts of BT, were transferred from Enterprise to the central procurement team and as a result are now reported in Group 'Other' financial results. The comparative results in the operating results notes have been revised to be presented on a consistent basis. See notes 3 and 4.

3. Operating results – by customer facing unit

	External Revenue	Internal revenue	Group revenue	Adjusted EBITDA[1]	Operating profit
Half year to 30 September 2020	**£m**	**£m**	**£m**	**£m**	**£m**
Consumer	**4,824**	**49**	**4,873**	**1,075**	**440**
Enterprise	**2,649**	**61**	**2,710**	**833**	**466**
Global	**1,916**	**—**	**1,916**	**289**	**94**
Openreach	**1,206**	**1,379**	**2,585**	**1,453**	**621**
Other	**12**	**—**	**12**	**71**	**(52)**
Intra-group items	**—**	**(1,489)**	**(1,489)**	**—**	**—**
Total adjusted[2]	**10,607**	**—**	**10,607**	**3,721**	**1,569**
Specific items (note 6)			**(17)**		**(115)**
Total			**10,590**		**1,454**
Half year to 30 September 2019[3]					
Consumer	5,144	50	5,194	1,180	549
Enterprise	2,895	92	2,987	955	603
Global	2,196	—	2,196	304	57
Openreach	1,164	1,372	2,536	1,417	579
Other	14	—	14	67	14
Intra-group items	—	(1,514)	(1,514)	—	—
Total adjusted[2]	11,413	—	11,413	3,923	1,802
Specific items (note 6)			54		(40)
Total			11,467		1,762

[1] For the reconciliation of adjusted EBITDA see additional information on page 30
[2] See Glossary on page 2
[3] 2019 results have been restated to reflect the transfer of Supply Chain and Pelipod from Enterprise to Other

4. Operating results - by type of revenue

Half year to 30 September 2020	**Consumer**	**Enterprise**	**Global**	**Openreach**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
ICT and managed networks	**—**	**1,029**	**1,040**	**—**	**—**	**2,069**
Fixed access subscription revenue	**2,075**	**900**	**173**	**1,187**	**—**	**4,335**
Mobile subscription revenue	**1,790**	**577**	**43**	**—**	**—**	**2,410**
Equipment and other services	**959**	**143**	**660**	**19**	**12**	**1,793**
Total adjusted[1] revenue	**4,824**	**2,649**	**1,916**	**1,206**	**12**	**10,607**
Specific items (note 6)						(17)
Total revenue						**10,590**
Half year to 30 September 2019[2]						
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	197	816	30	14	2,052
Total adjusted[1] revenue	5,144	2,895	2,196	1,164	14	11,413
Specific items (note 6)						54
Total revenue						11,467

[1] See Glossary on page 2
[2] 2019 results have been restated to reflect the transfer of Supply Chain and Pelipod from Enterprise to Other

5. Operating costs

	Half year to 30 September	
	2020	2019
	£m	£m
Direct labour costs	**2,568**	2,638
Indirect labour costs	**509**	500
Leaver costs	**5**	8
Total labour costs	**3,082**	3,146
Capitalised labour	**(797)**	(751)
Net labour costs	**2,285**	2,395
Product costs and sales commissions	**1,977**	2,154
Payments to telecommunications operators	**793**	927
Property and energy costs	**505**	493
Network operating and IT costs	**453**	440
Programme rights charges	**335**	437
Other operating costs	**538**	644
Operating costs before depreciation, amortisation and specific items	**6,886**	7,490
Depreciation and amortisation	**2,152**	2,121
Total operating costs before specific items	**9,038**	9,611
Specific items (Note 6)	**98**	94
Total operating costs	**9,136**	9,705

6. Specific items

Specific items are used to derive the adjusted results as presented in the accompanying consolidated income statement. The directors believe that presentation of our results in this way is relevant to an understanding of our financial performance, as specific items are identified by virtue of their size, nature or incidence.

This presentation 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 our trading results. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Specific items may not be comparable to similarly titled measures used by other companies. 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, regulatory settlements, 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 other items meet the criteria, which are applied consistently from year to year, they are also treated as specific items.

	Half year to 30 September	
	2020	2019
	£m	£m
Specific revenue		
Retrospective regulatory matters	**17**	(54)
Specific revenue	**17**	(54)
Specific operating costs		
Restructuring charges	**155**	144
Property rationalisation	**8**	(111)
Retrospective regulatory matters	**1**	(1)
Provisions for claims	**—**	(5)
Divestment related items	**(66)**	67
Specific operating costs	**98**	94
Specific operating loss	**115**	40
Interest expense on retirement benefit obligation	**9**	72
Net specific items charge before tax	**124**	112
Tax charge (credit) on specific items	**(30)**	(24)
Net specific items charge after tax	**94**	88

Restructuring charges

During the year we incurred charges of £155m (H1 2019/20: £144m), primarily relating to leaver costs associated with our group-wide modernisation programme and other cost initiatives.

Property rationalisation

We have recognised costs of £8m relating to rationalisation of our property portfolio under our Better Workplace Programme (H1 2019/20: net credit of £111m primarily relating to the £115m gain on sale of BT Centre).

Retrospective regulatory matters

We have recognised a regulatory charge of £18m (H1 2019/20: credit of £55m) in relation to regulatory matters. Of this charge, £17m is recognised in revenue and £1m in operating costs.

Divestment related items

We have recognised a net credit in relation to divestment related items of £66m (H1 2019/20: loss on disposal of £67m relating to the divestment of BT Fleet Solutions).

The credit in the current period includes £81m gain on disposal of our Spanish operations which completed in Q1. Net consideration was £152m and disposal costs of £10m were incurred. Total net assets disposed of were £61m, including an allocation of goodwill. This was partially offset by £6m impairment charges in respect of the disposal of selected operations and infrastructure in 16 countries in Latin America which completed on 1 October 2020, and £9m of divestment related costs.

Provisions for claims

In H1 2019/20 we recognised a credit of £5m in relation to release of provisions for claims created through specific items in 2012/13 which have now been fully settled.

Interest expense on retirement benefit obligation

During the year we incurred £9m (H1 2019/20: £72m) of interest costs in relation to our defined benefit pension obligations. This is lower than the prior year reflecting the lower IAS 19 pension deficit at 31 March 2020.

Tax on specific items

A net tax credit of £30m (H1 2019/20: credit of £24m) was recognised in relation to specific items.

7. Pensions

	30 September 2020	31 March 2020
	£bn	£bn
IAS 19 liabilities – BTPS	**(60.8)**	(53.0)
Assets – BTPS	**56.5**	52.2
Other schemes	**(0.6)**	(0.3)
Total IAS 19 deficit, gross of tax	**(4.9)**	(1.1)
Total IAS 19 deficit, net of tax	**(4.0)**	(1.0)
Discount rate (nominal)	**1.60 %**	2.45 %
Discount rate (real)	**(1.26)%**	(0.15)%
RPI inflation	**2.90 %**	2.60 %
CPI inflation	**0.9% below RPI until 31 March 2030 and 0.5% below RPI thereafter**	0.9% below RPI until 31 March 2030 and 0.5% below RPI thereafter

The IAS 19 deficit has increased from £1.1bn at 31 March 2020 to £4.9bn at 30 September 2020. Net of deferred tax, the deficit has increased from £1.0bn to £4.0bn.

At 30 September 2020, the discount rate model has been updated to use a wider universe of corporate bonds to derive the yield curve. A key difference is the inclusion of certain special purpose vehicle (SPV) corporate bonds that remain consistent with the requirements of IAS 19. The revised model is a standard approach developed by our external actuary. The impact of this change is a £0.9bn reduction in the BT Pension Scheme IAS 19 liabilities.

8. Financial instruments and risk management

Fair value of financial assets and liabilities measured at amortised cost

At 30 September 2020, the fair value of listed bonds was £21,142m (31 March 2020: £20,088m) and the carrying value was £18,083m (31 March 2020: £18,044m).

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 2020.

The current trade and other payables balance of £5,782m includes £106m (30 September 2019: £nil) of trade payables that have been factored by suppliers in a supply chain financing programme. These programmes are used with a limited number of suppliers with short payment terms to extend them to a more typical payment term.

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 2020	**£m**	**£m**	**£m**	**£m**
Investments				
Fair value through other comprehensive income	**—**	**—**	**9**	**9**
Fair value through profit and loss	**10**	**—**	**—**	**10**
Derivative assets				
Designated in a hedge	**—**	**1,925**	**—**	**1,925**
Fair value through profit and loss	**—**	**312**	**—**	**312**
Total assets	**10**	**2,237**	**9**	**2,256**
Derivative liabilities				
Designated in a hedge	**—**	**723**	**—**	**723**
Fair value through profit and loss	**—**	**269**	**—**	**269**
Total liabilities	**—**	**992**	**—**	**992**

	Level 1	Level 2	Level 3	Total held at fair value
31 March 2020	**£m**	**£m**	**£m**	**£m**
Investments				
Fair value through other comprehensive income	—	—	9	9
Fair value through profit and loss	11	—	—	11
Derivative assets				
Designated in a hedge	—	2,204	—	2,204
Fair value through profit and loss	—	285	—	285
Total assets	11	2,489	9	2,509
Derivative liabilities				
Designated in a hedge	—	776	—	776
Fair value through profit and loss	—	236	—	236
Total liabilities	—	1,012	—	1,012

No gains or losses have been recognised in the income statement in respect of Level 3 assets held at 30 September 2020. 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 2020, 8.3m shares (H1 2019/20: 7.0m) at a total cost of £16m (H1 2019/20: £20m), calculated at a weighted average cost per share, were transferred from own shares (comprising Treasury shares and shares held under the BT Group Employee Share Ownership Trust (the Trust)) to satisfy obligations under all-employee and executive share plans. We received cash proceeds of £1m (H1 2019/20: £1m).

In addition, 34.8m shares (H1 2019/20: nil) at a total cost of £90m (H1 2019/20: £nil), calculated at a weighted average cost per share, were transferred from own shares under the yourshare grant for employees in the UK.

Own shares of £3m (H1 2019/20: £86m) were purchased during the year.

10. Financial commitments

Capital expenditure for property, plant and equipment and software contracted for at the balance sheet date but not yet incurred was £1,164m (31 March 2020: £1,234m). Programme rights commitments, mainly relating to football broadcast rights for which the licence period has not yet started, were £1,911m (31 March 2020: £2,434m).

11. Dividend

No interim dividend has been declared (H1 2019/20: interim dividend of 4.62p per share, totalling £457m).

12. Contingent liabilities

Legal proceedings

The group is involved in various proceedings, including actual or threatened litigation, and government or regulatory investigations. 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 2020.

In respect of each of the claims below, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. There are many reasons why we cannot make these assessments with certainty, including, among others, that they are in early stages, no damages or remedies have been specified, and/or the often slow pace of litigation.

Italian Business

Milan Public Prosecutor prosecutions: In February 2019 the Milan Public Prosecutor served BT Italia S.P.A. with a notice (which named BT Italia, as well as various individuals) records the prosecutor's view that there is a basis for proceeding with its case against BT Italia for certain potential offences. BT Italia disputes this and maintains in a defence brief filed in April 2019 that it should not be prosecuted. BT Italia is not presently the subject of any formal charge (nor are any of the individuals named in the prosecutor's notice).

Preliminary Hearings in Milan to determine whether or not BT Italia and the 23 named Defendants should be committed to trial which were adjourned due the Covid-19 pandemic have now recommenced, with various dates scheduled during October 2020.

US securities class action complaints: In April 2020 the US Federal Court Judge granted our motion to dismiss all claims against BT and the named individual defendants. The plaintiffs have appealed that judgment. The appeal is estimated to take 12 to 18 months.

Brazilian tax claims

The Brazilian state tax authorities have made tax demands on the exchange of goods and services (ICMS) and regulatory assessments (FUST/FUNTTEL) 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/FUNTTEL 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/FUNTTEL are imposed and, in the case of ICMS, have challenged the rate which the tax authorities are seeking to apply.

As of the close of the second quarter we had 31 pending ICMS cases with an updated potential value of £130m, and 62 pending FUST FUNTTEL cases with an updated potential value of £22m.

On 1 October, the sale of BT Latam Inc. and its subsidiaries to CIH Telecommunications Americas LLC was completed. As a result of the sale the entities liable for the majority of all ICMS and FUST/FUNTTEL matters are no longer a part of BT Group plc and it will have no ongoing exposure with respect to those matters.

The retained business will continue to be responsible for 2 ICMS cases with a current estimated potential value of £11m, and 17 FUST FUNTELL cases with a current estimated potential value of £4m. Other than these BT Group plc retains no material direct exposures.

Phones 4U

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

Regulatory matters

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

Northern Ireland Public Sector Shared Network contract

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

Other regulatory matters

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

13. Post balance sheet events

On 1 October 2020 we completed the disposal of selected operations and infrastructure in 16 countries in Latin America. These operations and infrastructure had been classified as held for sale at 31 March 2020 with a charge of £90m recognised as an impairment. Further impairment charges of £6m have been recognised as specific items in the half year to 30 September 2020. The impact of the divestment on the legal proceedings in relation to Brazilian tax claims is discussed in note 12.

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

We have processes for identifying, evaluating and managing our risks. Details of our principal risks and uncertainties can be found on pages 52 to 63 of the Annual Report 2020 and are summarised below. They have the potential to have an adverse impact on our profit, assets, liquidity, capital resources and reputation.

Strategic risks

- Competition – Failure to respond effectively to intensifying competition and technology developments, and develop product propositions in line with changing market dynamics and expectations.
- Political – Risks associated with Brexit, geopolitical trends, and the perceived issues in deployment and connectivity of broadband and mobile coverage.
- Communications industry regulation - Failure to comply with existing regulations or material regulatory change could impact the way we operate and compete in terms of our pricing, the standards we must meet and the services we provide.

Operational risks

- Cyber security - Cyber security risks could arise from colleagues inside BT or from external sources, with any failure to effectively manage these exposures presenting a material threat to data integrity, service availability and our reputation as a leader in cyber security.
- Third party management - A failure in the supplier selection and/or in-life third party management process, as well as external factors that could generate risk in our supply chain such as restrictions in our ability to engage with perceived high risk vendors, Brexit and Covid-19.
- Change management – Failure to realise the benefits of our transformation programme could negatively impact customer experience and our operational efficiency, as well as our ability to make future investments.
- Major contracts – Failure to successfully manage our large, complex and high-value national and multinational customer contracts (including the Emergency Services Network and the Building Digital UK Programme) and deliver the anticipated benefits.
- Customer experience – Failure to transform the customer experience so that it is brand enhancing and drives sustainable profitable revenue growth.
- Service interruption – Any major or repeated failure to maintain the continuity of our end-to-end customer services (e.g. network connectively and performance, and IT systems and service platforms).
- Colleague engagement – A negative reaction to change or poor consultation could adversely impact colleague engagement and subsequent ability to achieve our strategic objectives.

Financial risks

- Pension scheme - Our defined benefit pension schemes, in particular the BT Pension Scheme (BTPS), could become more of a financial burden as a result of future low investment returns, changes in inflation expectations, longer life expectancies, a more prudent approach being taken (e.g. if BT's financial strength is viewed as having worsened) or regulatory changes). A review of our contributions for the BTPS is underway.
- Financing – Exposure to funding and liquidity risks, including those arising from our underling business operations, and also to financial risks such as interest rate, foreign exchange and counterparty risks.

Compliance risks

- Health, safety and wellbeing - Failure to look after the health, safety and wellbeing of our colleagues and/or members of the public, especially in the light of Covid-19 related exposures, with potential breaches of health and safety laws and regulations and disruption to our operations.
- Significant control failure - Failure of our financial controls to prevent and/or detect fraud, financial misstatement or other financial loss.
- Privacy and data protection - Breach of data privacy laws through misuse, or failure to secure and protect, customer and employee data.
- Ethics culture - Failure to promptly recognise and respond to wrongdoing by our colleagues or those working on our behalf, which could include a breach of our internal policies and procedures or applicable laws (e.g. anti-bribery and corruption, trade sanctions and human rights).

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. Since the publication of the 2020 Annual Report, the risks landscape has developed, particularly in relation to Covid-19, Brexit and the Government's review of high risk vendors.

Despite a successful operational response to date, Covid-19 continues to impact our colleagues, operations, suppliers and customers. Our Covid-19 trading risks relate to reduced consumer spending, financial distress and insolvency of our corporate customers, reduced public-sector budgets, reduced mobile roaming and the possibility of further suspension of sport. This is partially offset by reduced customer churn and an increasing use of connectivity products. The future prevalence of the virus and the long-term economic impacts are uncertain. We continue to monitor emerging exposures and our ability to manage them, defining and agreeing actions as required.

Our Brexit SteerCo continues to stress test scenarios related to a disorderly Brexit, assessing our level of preparedness and agreeing any further contingency actions where required. This includes ensuring appropriate stock piling is in place and implementing preventative and contingency controls to deal with potential supply chain, customs, data, mobile roaming, people and regulatory related risks.

In July 2020, the UK Government announced a revised set of proposals to remove Huawei equipment from 5G communication networks in the UK by the end of 2027. Compliance with this requirement creates additional network development and resilience risks that need to be carefully managed. There is a risk that further restrictions resulting from the Government's review of high risk vendors (including Huawei) could exacerbate the risks and lead to additional costs. We will continue to work with relevant authorities as they consult on the future procurement strategy for fixed and mobile networks.

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	Simon Lowth
Group Chief Executive	Group Chief Financial Officer

28 October 2020

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 2020 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 2020 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.

As disclosed in note 1, 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.

John Luke
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square, London, E14 5GL
28 October 2020

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	
	2020	2019
	£m	£m
Reported profit for the period	**856**	1,068
Tax	**206**	265
Reported profit before tax	**1,062**	1,333
Net interest related finance expense	**384**	361
Depreciation and amortisation	**2,152**	2,121
EBITDA	**3,598**	3,815
EBITDA specific items	**115**	40
Net other finance expense	**9**	70
Share of post tax losses (profits) of associates and joint ventures	**(1)**	(2)
Adjusted[1] EBITDA	**3,721**	3,923

[1] 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	
	2020	2019
	£m	£m
Cash inflow from operating activities[1]	**2,790**	2,326
Tax paid	**(77)**	(83)
Net cash inflows from operating activities	**2,713**	2,243
Net purchase of property, plant and equipment and software	**(2,085)**	(1,853)
Free cash flow[2]	**628**	390
Interest received	**6**	16
Interest paid[1]	**(409)**	(370)
Add back pension deficit payments	**425**	1,261
Dividends from associates	**4**	(1)
Net cash flow from specific items	**221**	(67)
Payment of lease liabilities	**(363)**	(311)
Cash tax benefit of pension deficit payments	**(90)**	(314)
Normalised free cash flow[2]	**422**	604

[1] Consistent with the full year results, interest on lease liabilities is now included within interest paid. Interest on lease liabilities of £70m was previously reported within cash inflow from operating activities in the Q2 2019/2020 results release

[2] See Glossary on page 2

Net Debt

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

	30 September 2020	31 March 2020	30 September 2019
	£m	£m	£m
Loans and other borrowings	**19,163**	19,334	17,714
Lease liabilities	**6,263**	6,560	6,112
Cash and cash equivalents	**(801)**	(1,549)	(499)
Current asset investments	**(5,667)**	(5,092)	(3,727)
Net (assets) liabilities classified as held for sale[1]	**(12)**	19	—
	18,946	19,272	19,600
Adjustments:			
To re-translate currency denominated balances at swapped rates when hedged[2]	**(1,092)**	(1,049)	(1,002)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method[3]	**(227)**	(254)	(251)
Net debt[4]	**17,627**	17,969	18,347
Lease liabilities	**(6,263)**	(6,560)	(6,112)
Lease liabilities classified as held for sale	**(31)**	(62)	—
Net financial debt	**11,333**	11,347	12,235

1 Net assets classified as held for sale comprise cash and cash equivalents of £43m and lease liabilities of £31m (31 March 2020: net liabilities comprising cash and cash equivalents of £43m and lease liabilities of £62m)
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 2020
	%
Increase (decrease) in reported EBITDA	**(5.7)**
EBITDA specific items	**2.0**
Other finance expense	**(1.5)**
Share of post tax losses (profits) of associates and joint ventures	**0.1**
Increase (decrease) in adjusted[1] EBITDA	**(5.1)**

1 See Glossary on page 2

Forward-looking statements – caution advised

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

Although BT believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: the duration and severity of Covid-19 impacts on our people, operations, suppliers and customers; failure to respond effectively to intensifying competition and technology developments; failure to address the lingering perception of slow pace and connectivity in broadband and mobile coverage, which continues to be raised at a UK parliamentary level; undermining of our strategy and investor confidence caused by an adversarial political environment; challenges presented by Covid-19 around network resilience, support for staff and customers, data sharing and cyber security defence; unfavourable regulatory changes; attacks on our infrastructure and assets by people inside BT or by external sources like hacktivists, criminals, terrorists or nation states; a failure in the supplier selection process or in the ongoing management of a third-party supplier in our supply chain, including failures arising as a result of Covid-19; risks relating to our BT transformation plan; failure to successfully manage our large, complex and high-value national and multinational customer contracts (including the Emergency Services Network and the Building Digital UK (BDUK) programme) and deliver the anticipated benefits; changes to our customers' needs, budgets or strategies that adversely affect our ability to meet contractual commitments or realise expected revenues, profitability or cash generation; customer experiences that are not brand enhancing nor drive sustainable profitable revenue growth; pandemics, natural perils, network and system faults, malicious acts, supply chain failure, software changes or infrastructure outages that could cause disruptions or otherwise damage the continuity of end to end customer services including network connectivity, network performance, IT systems and service platforms; insufficient engagement from our people; adverse developments in respect of our defined benefit pension schemes; risks related to funding and liquidity, interest rates, foreign exchange, counterparties and tax; failures in the protection of the health, safety and wellbeing of our employees or members of the public or breaches of health and safety law and regulations; financial controls that may not prevent or detect fraud, financial misstatement or other financial loss; security breaches relating to our customers' and employees' data or breaches of data privacy laws; failure to recognise or promptly report wrongdoing by our people or those working for us or on our behalf (including a failure to comply with our internal policies and procedures or the laws to which we are subject); and the potential impacts of climate change on our business.

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

The person responsible for making this announcement is Sabine Chalmers, BT's General Counsel.

About BT

BT Group is the UK's leading telecommunications and network provider and a leading provider of global communications services and solutions, serving customers in 180 countries. Its principal activities in the UK include the provision of fixed voice, mobile, broadband and TV (including Sport) and a range of products and services over converged fixed and mobile networks to consumer, business and public sector customers. For its global customers, BT provides managed services, security and network and IT infrastructure services to support their operations all over the world. BT consists of four customer-facing units: Consumer, Enterprise, Global and its wholly-owned subsidiary, Openreach, which provides access network services to over 650 communications provider customers who sell phone, broadband and Ethernet services to homes and businesses across the UK.

For the year ended 31 March 2020, BT Group's reported revenue was £22,905m with reported profit before taxation of £2,353m.

British Telecommunications plc 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.bt.com/about.

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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 2020/21 on 4 February 2021.