BT Group

Results for the half year to 30 September 2023

BT Group plc
2 November 2023

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

"These results show that BT Group is delivering and on target: we're rapidly building and connecting customers to our next generation networks, we're simplifying our products and services, and we're now seeing predictable and consistent revenue and EBITDA growth.

"We've strengthened our competitive position with the launch of both New EE and our renewed strategy in Business, and Openreach has now built full fibre broadband to more than a third of the UK's homes and businesses with a growing connection rate. Our transformation programme has now delivered £2.5bn in annualised savings, well on track to meet our £3bn savings target by FY25.

"Our delivery in the first half means we are confirming our financial outlook for FY24 with normalised free cash flow now expected towards the top end of the guidance range, and we are declaring an interim dividend of 2.31 pence per share. BT Group has a bright future and I'm pleased to be handing the baton to Allison Kirkby early in the new year. She knows the sector, she knows the company and she's the right person to lead BT Group from this position of operational strength."

Continued strong execution of our strategy

- **FTTP build rate** accelerated to 66k per week delivering a record of 860k premises passed in the quarter, FTTP footprint is now expanded to 12m premises with a further 6m where initial build is underway
- **Strong customer demand in Openreach for FTTP** with net adds of 364k in Q2, bringing take-up rate to 33%
- **Openreach broadband ARPU** grew by 10% year-on-year due to price rises and increased volumes of FTTP; Openreach broadband line losses of 255k in H1, a 1% decline in the broadband base; whilst we continue to target a decline of around 400k in FY24, softer market conditions increase the risk that losses will be above this level
- **Consumer broadband ARPU** for the year to date increased 4% year-on-year and **Consumer postpaid mobile ARPU** for the year to date increased 9% year-on-year; **churn** for the year to date remains stable for both broadband and postpaid mobile at 1.1% and 1.0% respectively
- **In October 'New EE' was launched** with a modern digital platform and a set of converged products and services
- **Retail FTTP base** grew year-on-year by 48% to 2.2m of which Consumer 2.1m and Business 0.1m; 5G base 9.9m, up 42% year-on-year
- **Cost transformation** on track with gross annualised cost savings of £2.5bn since April 2020 against our £3bn target, with a cost to achieve of £1.3bn against a target of £1.6bn
- Continued focus on creating standout customer experiences with **BT Group NPS** of 22.7, up 1.8pts year-on-year

Adjusted[1] Revenue and EBITDA growth:

- **Reported revenue** £10.4bn, in line with the prior year; **adjusted[1] revenue** £10.4bn, up 3% on a pro forma[2] basis due to increased fibre-enabled product sales, inflation-linked pricing and improved lower margin trading in Business partially offset by legacy product declines
- **Adjusted[1] EBITDA** £4.1bn, up 6%; and up 4% on a pro forma[2] basis with revenue flow through and strong cost control more than offsetting cost inflation and one-off items in the prior year; Business EBITDA decline due to increased input costs and legacy high-margin managed contract declines
- **Reported profit before tax** £1.1bn, up 29% largely due to factors driving adjusted[1] EBITDA growth
- **Reported capital expenditure ('capex')** £2.3bn, down 11% with lower fixed network spend driven by lower FTTP build unit costs; cash capex of £2.5bn also down 11%
- **Net cash inflow from operating activities** £2.3bn; **normalised free cash flow[1]** £0.5bn, up £0.4bn primarily due to £0.2bn increase in adjusted EBITDA[1] and £0.3bn decrease in cash capital expenditure partly offset by £(0.1)bn net working capital outflow; net working capital movements includes £359m from the sale of cash flows of contract assets relating to mobile handsets as well as £(220)m from lower utilisation of a supply chain financing programme
- **Net debt** £19.7bn, (31 March 2023: £18.9bn), increasing mainly due to pension scheme contributions with net free cash flow for the first half of FY24 substantially offsetting the payment for the final dividend of FY23
- **Gross IAS 19 deficit** of £3.9bn, up from £3.1bn at 31 March 2023 mainly due to the increase in real interest rates and narrowing of credit spreads over H1, partly offset by deficit contributions
- **Interim dividend** for FY24 of 2.31 pence per share (pps) in line with our policy of paying 30% of prior year's full year dividend
- **FY24 Outlook**: Adjusted[1] revenue and EBITDA growth on a pro forma basis; capital expenditure excluding spectrum of around £5.0bn; normalised free cash flow towards the top end of £1.0bn-£1.2bn range.

[1] See Glossary on page 3.
[2] See 'Prior period comparatives' section on page 2 for background on pro forma comparatives.

BT Group plc
Registered Office:
1 Braham Street London E1 8EE
Registered in England and Wales no. 4190816
www.bt.com/about

Half year to 30 September	2023	2022	Change
Reported measures	**£m**	£m	%
Revenue	**10,407**	10,366	—
Profit before tax	**1,076**	831	29
Profit after tax	**844**	893	(5)
Basic earnings per share	**8.6p**	9.1p	(5)
Net cash inflow from operating activities	**2,324**	2,911	(20)
Interim dividend	**2.31p**	2.31p	—
Capital expenditure	**2,321**	2,613	(11)
Adjusted measures			
Adjusted[1] Revenue	**10,414**	10,368	—
Adjusted[1] EBITDA	**4,094**	3,873	6
Pro forma[2] Revenue	**10,414**	10,130	3
Pro forma[2] EBITDA	**4,094**	3,944	4
Adjusted[1] basic earnings per share	**10.3p**	10.0p	3
Normalised free cash flow[1]	**456**	64	613
Net debt[1,3]	**19,689**	19,042	£647m

Customer-facing unit updates

	Adjusted[1] revenue			Adjusted[1] EBITDA			Normalised free cash flow[1]		
Half year to 30 September	**2023**	2022 Pro forma[2] re-presented[2]	Change	**2023**	2022 Pro forma[2] re-presented[2]	Change	**2023**	2022 Pro forma[2] re-presented[2]	Change
	£m	£m	%	**£m**	£m	%	**£m**	£m	%
Consumer	**4,903**	4,754	3	**1,347**	**1,296**	4	**798**	**499**	60
Business	**4,100**	4,041	1	**806**	**903**	(11)	**(65)**	**12**	(642)
Openreach	**3,053**	2,836	8	**1,936**	**1,735**	12	**152**	**59**	158
Other	**8**	14	(43)	**5**	**10**	(50)	**(429)**	**(506)**	15
Intra-group items	**(1,650)**	(1,515)	(9)	**—**	**—**	—	**—**	**—**	
Total	**10,414**	10,130	3	**4,094**	**3,944**	4	**456**	**64**	613

Second quarter to 30 September	**2023**	2022 Pro forma[2] re-presented[2]	Change	**2023**	2022 Pro forma[2] re-presented[2]	Change	**2023**	2022 Pro forma[2] re-presented[2]	Change
	£m	£m	%	**£m**	£m	%	**£m**	£m	%
Consumer	**2,480**	2,406	3	**674**	664	2			
Business	**2,073**	2,074	—	**420**	469	(10)			
Openreach	**1,527**	1,419	8	**971**	872	11			
Other	**3**	7	(57)	**(4)**	(6)	33			
Intra-group items	**(833)**	(755)	(10)	**—**	—	—			
Total	**5,250**	5,151	2	**2,061**	1,999	3	**687**	**269**	155

[1] See Glossary on page 3.
[2] See 'Prior period comparatives' section below for more information on pro forma and re-presented measures.
[3] Net debt was £18,859m at 31 March 2023.

Prior period comparatives

Throughout this release, comparative financial information for the half year to 30 September 2022 ('FY23') has been re-presented to reflect the merger of our Global and Enterprise business units to form Business; and the change in the methodology used to allocate shared Network, Digital and support function costs across our units, which improves the relevance of our financial reporting by better allocating internal costs to the drivers behind those costs. These adjustments are made pursuant to IFRS accounting requirements, for more information see note 1 to the condensed consolidated financial statements on page 15 .

In addition, the group and operating review sections of this release present comparative financial information for the Consumer customer-facing unit and BT Group overall on an unaudited 'pro forma' basis. This reflects adjustments that estimate the impact as if trading in relation to BT Sport has been equity accounted in FY23, akin to the Sports JV being in place historically. Analysis on a pro forma basis enables comparison of results on a like-for-like basis.

The Additional Information on page 29 presents a bridge between financial information for the half year to 30 September 2022 as published on 3 November 2022, and the comparatives presented in this release. For further information see bt.com/about for separate publications covering the formation of Business and cost allocation changes, (published 27 June 2023), and the pro forma adjustments (published 18 October 2022).

Glossary

Adjusted	Adjusted measures (including adjusted revenue, adjusted operating costs, adjusted operating profit, and adjusted basic earnings per share) are 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.
Adjusted EBITDA	Earnings before interest, tax, depreciation and amortisation, before specific items, share of post tax profits/losses of associates and joint ventures and net 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 (net cash inflow from operating activities after net capital expenditure) after net interest paid, payment of lease liabilities, net cash flows from the sale of cash flows related to contract assets, monies received as prepayment for the sale of redundant copper, dividends received from non-current assets investments, associates and joint ventures, and net purchase or disposal of non-current asset investments, before pension deficit payments (including their cash tax benefit), payments relating to spectrum, and specific items. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends paid, share buybacks, acquisitions and disposals, repayment and raising of debt, cash flows relating to loans with joint ventures, and cash flows relating to the Building Digital UK demand deposit account which have already been accounted for within normalised free cash flow. For non-tax related items the adjustments are made on a pre-tax basis.
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. Amounts due to joint ventures, loans and borrowings recognised in relation to monies received from the sale of cash flows of contract assets and as prepayment for the forward sale of redundant copper are excluded. 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.
Service revenue	Earned from services delivered using our fixed and mobile network connectivity, including but not limited to, broadband, calls, line rental, TV, residential sport subscriptions, mobile data connectivity, incoming & outgoing mobile calls and roaming by customers of overseas networks.
Re-presented	FY23 comparatives throughout this release have been re-presented to reflect: (i) the merger of our Global and Enterprise business units to form Business; and (ii) the change in our methodology used to allocate shared Network, Digital and support function costs across our units. Refer to the 'Prior period comparatives' section on page 2 and note 1 to the condensed consolidated financial statements on page 15 for more details, and to Additional Information on page 29 for a bridge between previously published FY23 financial information and re-presented numbers.
Pro forma	Unaudited pro forma results estimate the impact on the group as if trading in relation to BT Sport has been equity accounted in FY23, akin to the Sports JV being in place historically. Refer to the 'Prior period comparatives' section on page 2 for more information and to Additional Information on page 29 for a bridge between previously published financial information (re-presented as noted above) and pro forma numbers.
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 to changes to our assessment of our provision for historic regulatory matters, restructuring charges, divestment-related items and net interest expense on pensions.

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 29 to 31.

Overview of the half year to 30 September 2023

Key transformation metrics

As we shared in May, we are transforming BT Group, connecting for good and leading nationwide next-generation networks with best in class customer service and solutions. We outlined a number of strategic metrics to measure successful delivery against our strategy with FY28-30 targets outlined for the BT Group of the future.

During H1 FY24, BT Group made strong progress against these strategic metrics:

- Total labour resource decreased by 7k to 123k; target of 75-90k
- FTTP premises passed increased by 1.6m to 11.9m; target of 25-30m
- Openreach take-up increased by 3 percentage points to 33% and retail take-up increased by 0.4m to 2.2m; targets of 40-55% and 6.5-8.5m respectively
- 5G UK population coverage increased to 72% and 5G retail connections increased by 1.3m to 9.9m; target of 13.0-14.5m

Financial outlook

- In the half, we have benefitted from unit build costs in our full fibre rollout in the lower half of our £250-£350 per premise range. Therefore, despite our accelerating rate of build, we are lowering our FY24 reported capital expenditure outlook to c.£5.0bn. This will flow through to our normalised cash flow for FY24, which we now expect to be toward the top end of our £1.0bn to £1.2bn range.
- FY24 Outlook: Adjusted[1] revenue and EBITDA growth on a pro forma basis; capital expenditure excluding spectrum of around £5.0bn; normalised free cash flow towards the top end of £1.0bn-£1.2bn range.
- Beyond FY24, with two-thirds of our gross revenue linked to CPI and ongoing transformation, we continue to expect consistent and predictable growth in revenue and adjusted EBITDA. We remain confident in expanding normalised free cash flow by at least £1.5bn, compared to FY22, by the end of the decade, from lower capital and operating expenditure as we move towards an all-fibre, all-IP network, net of tax.

	FY24 outlook	Beyond FY24
Change in adjusted[1] revenue	Growth on a Sports JV pro forma[1] basis	Consistent growth
Adjusted[1] EBITDA	Growth on a Sports JV pro forma[1] basis	Consistent growth
Capital expenditure[1]	c.£5.0bn	£5.0bn-5.1bn from FY24-FY26. >£1bn reduction post peak fibre build in FY28
Normalised free cash flow[1]	Toward the top end of £1.0bn-£1.2bn	At least £1.5bn incremental NFCF by end of the decade

Dividend

- We are today declaring an interim dividend of 2.31 pence per share (pps) (FY22: 2.31pps), which is 30% of last year's full year dividend, in line with our policy.
- We reconfirm our progressive dividend policy which is to maintain or grow the dividend each year whilst taking into consideration a number of factors including underlying medium-term earnings expectations and levels of business reinvestment.
- The Board expects to continue with this policy 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.

Principal risks and uncertainties

A summary of the group's principal risks and uncertainties is provided in note 14.

[1] See Glossary on page 3.

Group results for the half year to 30 September 2023

Income statement

- Reported revenue was £10,407m, in line with the prior year with the removal of BT Sport revenue and legacy product declines offset by fibre-enabled product sales and price increases in Openreach, increased service revenue in Consumer driven by contractual price rises and improved lower margin trading in Business.
  - on a Sports JV pro forma[1] basis reported revenue was up 3%.
- Reported operating costs were £8,829m, down 3% primarily due to tight cost control and the removal of BT Sport rights and production costs partly offset by cost inflation and one-off items in the prior year.
- Adjusted[1] EBITDA of £4,094m, up 6%, primarily driven by the reduction in operating costs.
  - on a Sports JV pro forma[1] basis adjusted[1] EBITDA was up 4%.
- Reported profit before tax of £1,076m, up 29%, largely due to factors driving adjusted[1] EBITDA growth.

Specific items (Note 5 to the condensed consolidated financial statements)

- Specific items resulted in a net charge after tax of £167m (H1 FY23: £87m). The main components were restructuring charges of £170m (H1 FY23: £122m) and interest expense on retirement benefit obligation of £60m (H1 FY23: £9m); partly offset by tax credit on specific items of £55m (H1 FY23: credit of £220m).
- Specific items recognised in H1 FY23 include £188m net charges associated with the disposal of BT Sport and £191m of the tax credit.

Tax

- The effective tax rate on reported profit was 21.5% (H1 FY23: negative 7.5%). It was lower than the 25% corporation tax rate primarily due to the benefit derived from the UK patent box incentive.
- The rate is higher than the prior year as the prior year tax credit was driven by the impact of the super deduction and the fact that the gain on disposal of BT Sport was exempt from UK tax.
- The effective tax rate on adjusted[1] profit was 22.1% (H1 FY23: 13.9%) also due to the benefit derived from the UK patent box incentive.
- We expect a large proportion of our fibre rollout capital expenditure to be eligible for the Government's full expensing capital allowance regime, which provides for 100% tax relief in the year of spend for qualifying expenditure. This is expected to drive a taxable loss in the year, adding to the £8bn of tax losses carried forward from FY23.
- The charge for the period comprises deferred tax in the UK and current tax overseas.

Capital expenditure

- Reported capital expenditure was £2,321m, down 11%, with lower fixed network spend driven by lower FTTP build unit costs.
- Cash capital expenditure was also down 11% at £2,455m.

Net cash inflow from operating activities and normalised free cash flow

- Net cash inflow from operating activities was £2,324m, down 20%.
- Normalised free cash flow[1] was £456m, up £392m primarily due to £221m increase in adjusted EBITDA[1] and £300m decrease in cash capital expenditure, partly offset by £(109)m net working capital outflow. Net working capital movements includes £359m from the sale of cash flows of contract assets relating to mobile handsets as well as £(220)m from lower utilisation of a supply chain financing programme.
  - a reconciliation of these measures to our free cash flow is shown in Additional Information on page 29.

Net debt and liquidity

- Net financial debt (which excludes lease liabilities) was £14.6bn (31 March 2023: £13.5bn), increasing mainly due to pension scheme contributions with net free cash flow for the first half of FY24 substantially offsetting the payment for the final dividend of FY23.
- Net debt[1] (which includes lease liabilities) was £19.7bn (31 March 2023: £18.9bn); the difference to the movement in net financial debt reflects lease movements.
- BT Group holds cash and current investment balances of £3.8bn; the current portion of loans and other borrowings is £2.1bn.
- Our £2.1bn revolving credit facility, which matures in March 2027, remains undrawn at 30 September 2023.
- We remain committed to our credit rating target of BBB+ and minimum rating of BBB.
  - During H1 FY24 all of the major agencies confirmed their ratings at BBB or equivalent with stable outlook.

Pensions (Note 6 to the condensed consolidated financial statements)

- The IAS 19 deficit has increased from £3.1bn at 31 March 2023 to £3.9bn at 30 September 2023.
- The BT Pension Scheme (BTPS) hedges inflation and interest rate risk with reference to the funding deficit, mechanically leading to the BTPS being over hedged on an IAS 19 measure. In addition, the IAS 19 liabilities are set by reference to the yield on corporate bonds. The increase in real yields and the narrowing of credit spreads over H1 have therefore contributed to an increase in the deficit, partly offset by deficit contributions of £0.7bn. By contrast, these factors would not contribute to an increase in the funding deficit.

[1] See Glossary on page 3.

Sports JV performance

- Our sports joint venture with Warner Bros. Discovery ('Sports JV') completed its first year of trading, delivering a compelling sports offering to audiences in the UK and Ireland. Underlying trading operations in the six months to 30 September 2023 were profitable but we recognised a share of losses after tax of £19m after adjustments made to align with the group's accounting policies.
- Further details on the Sports JV is provided in note 12.

Operating review

Measures discussed in the operating review are on an adjusted basis and unless otherwise stated commentary is on half year results.

Consumer: Continued adjusted[2] EBITDA growth and strong operational performance

	Second quarter to 30 September				Half year to 30 September			
	2023	2022 re-presented[1]	Change		**2023**	2022 re-presented[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[2]	**2,480**	2,490	(10)	—	**4,903**	4,992	(89)	(2)
Operating costs[2]	**1,806**	1,855	(49)	(3)	**3,556**	3,767	(211)	(6)
EBITDA[2]	**674**	635	39	6	**1,347**	1,225	122	10
Depreciation & amortisation					**840**	804	36	4
Operating profit[2]					**507**	421	86	20
Capital expenditure					**538**	596	(58)	(10)
Normalised free cash flow[2]					**798**	376	422	112
Pro forma[3] adjusted revenue	**2,480**	2,406	74	3	**4,903**	4,754	149	3
Pro forma[3] adjusted EBITDA	**674**	664	10	2	**1,347**	1,296	51	4
Pro forma[3] capital expenditure					**538**	595	(57)	(10)
Pro forma[3] normalised free cash flow					**798**	499	299	60

- Adjusted[2] revenue growth of 3% on a pro forma[3] basis was driven by service revenue[4] growth from the 2023 annual contractual price rise, increased roaming and increased FTTP connections. This was partially offset by a decline in mobile equipment revenue due to a continued slowdown in device demand. Adjusted[2] revenue was down 2% due to the BT Sport disposal
- Adjusted[2] EBITDA growth of 4% on a pro forma[3] basis with the growth in service revenue[4] offset by higher input costs and prior year one-off items. Adjusted[2] EBITDA was up 10% due to adjusted[1] revenue growth and rights and production cost savings from the BT Sport disposal
- Strong H1 ARPU growth; postpaid mobile £19.9, up 9% YoY, broadband £41.6, up 4% YoY
- Churn remains low despite competitive markets; Broadband 1.1%, Postpaid mobile 1.0% with EE Ofcom complaints lower than industry average for mobile, broadband and landline
- Continued growth in FTTP base with an increase of 335k in H1; up 40% year on year; FTTP base now at 2.1m, 5G Connected base now at 9m
- Depreciation and amortisation was up, driven by higher mobile network, digital and customer equipment investment
- Capital expenditure was down due to lower digital spend; normalised free cash flow[2] was up in line with higher adjusted[2] EBITDA, net working capital movements and lower capital expenditure. Net working capital movements include cash flows of £359m from the sale of cash flows of contract assets relating to mobile handsets as well as £(220)m from lower utilisation of a supply chain financing programme
- 'New EE' launched in October, a modern digital platform for growth with a new portfolio of converged products and services

[1] Prior period comparatives have been re-presented for the changes detailed in the 'Re-presented' heading of the Glossary on page 3. See also note 1 to the condensed consolidated financial statements on page 15 for more details, and Additional Information on page 29 for a bridge to previously published results.
[2] Financials and commentary are based on adjusted measures; see Glossary on page 3.
[3] See Sports JV pro forma definition in the Glossary on page 3, and Additional Information on page 29 for a bridge to previously published results.
[4] See Glossary on page 3.

Business: Ongoing margin pressure reflecting higher input costs and legacy declines, partly offset by cost transformation.

	Second quarter to 30 September				Half year to 30 September			
	2023	2022 re-presented[1]	Change		**2023**	2022 re-presented[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[2]	**2,073**	2,074	(1)	—	**4,100**	4,041	59	1
Operating costs[2]	**1,653**	1,605	48	3	**3,294**	3,138	156	5
EBITDA[2]	**420**	469	(49)	(10)	**806**	903	(97)	(11)
Depreciation & amortisation					**490**	536	(46)	(9)
Operating profit[2]					**316**	367	(51)	(14)
Capital expenditure					**361**	448	(87)	(19)
Normalised free cash flow[2]					**(65)**	12	(77)	(642)

- Adjusted[2] revenue growth was driven by low margin sales and continued trading momentum further enhanced by inflation-linked price rises in Small and Medium Business (SMB). This was partially offset by declines and exits in high margin legacy managed contracts
- Adjusted[2] EBITDA decline was driven by higher input costs, the flow through of legacy declines and one-offs in the prior year. This was partially offset by the ongoing benefit of cost transformation and SMB trading flow through
- Depreciation and amortisation decline was driven primarily by the timing of asset recognition in the prior year
- Capital expenditure was down due to higher customer project spend in the prior year; Normalised free cash flow declined mainly due to lower adjusted[2] EBITDA and timing of working capital, partially offset by lower capital expenditure
- FTTP base increased 53% to 124k at the end of H1, up from 81k at H1 last year. 5G base increased 32% to 931k at the end of H1, up from 706k at H1 last year
- Retail order intake was £6.2bn on a 12-month rolling basis, down 4%, with 11% growth in contract re-signs offset by 11% fall in new business
- Business has secured a major new five-year networks contract with the Army – paving the way for the rollout of smart bases across the UK
- In October, Business signed a new strategic security partnership with Google Cloud, targeting a range of joint revenue and innovation opportunities. The move builds on existing collaboration between the companies and sees BT become an official reseller of Google Chronicle
- Business also announced in October the launch of Global Fabric, a new international multi-cloud network based on a network-as-a-service model enabling customers to improve performance, cost, security and sustainability

[1] Prior period comparatives have been re-presented for the changes detailed in the 'Re-presented' heading of the Glossary on page 3. See also note 1 to the condensed consolidated financial statements on page 15 for more details, and Additional Information on page 29 for a bridge to previously published results.
[2] Financials and commentary are based on adjusted measures; see Glossary on page 3.

Openreach: Adjusted[2] revenue and adjusted[2] EBITDA growth; Record quarter for FTTP build

	Second quarter to 30 September				Half year to 30 September			
	2023	2022 re-presented[1]	Change		**2023**	2022 re-presented[1]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue[2]	**1,527**	1,419	108	8	**3,053**	2,836	217	8
Operating costs[2]	**556**	547	9	2	**1,117**	1,101	16	1
EBITDA[2]	**971**	872	99	11	**1,936**	1,735	201	12
Depreciation & amortisation					**992**	940	52	6
Operating profit[2]					**944**	795	149	19
Capital expenditure					**1,390**	1,504	(114)	(8)
Normalised free cash flow[2]					**152**	59	93	158

- Adjusted[2] revenue growth was driven by CPI linked price increases, growth in FTTP broadband base and growth in the Ethernet base. This was partially offset by declines in the legacy copper broadband and Wholesale Line Rental (WLR) voice only base
- Adjusted[2] EBITDA growth was driven by revenue flow through, improved cost transformation including lower staff numbers, partially offset by pay inflation, higher energy costs and higher FTTP provision volumes.
- Depreciation and amortisation was up, driven by increased network build
- Capital expenditure reduction was driven by lower FTTP capex with lower FTTP build unit costs partly offset by higher FTTP provision volume
- Normalised free cash flow[2] increase was driven by higher adjusted[2] EBITDA and lower capital expenditure, partially offset by the timing of working capital
- Record FTTP build of 860k premises passed in the quarter at an average build rate of 66k per week
- Current FTTP footprint of 12m with 3.5m premises passed in rural locations
- Strong FTTP demand with YTD orders up 23% YoY; take up rate grew to 33% with continued strong net adds of 364k; total FTTP connections currently stand at c.4m
- Openreach broadband ARPU grew by 10% year-on-year due to price rises and increased volumes of FTTP
- Openreach broadband base down 255k in H1 largely in our copper base, due to a weaker broadband market, including slower new home build, dual line ceases and competitor losses, that were broadly flat vs H2 FY23; whilst we continue to target the Openreach broadband base to decline by around 400k in FY24, a weaker than expected broadband market means there is a risk that we will exceed this level. Our broadband base decline has occurred where we do not have FTTP. We have grown the broadband base within our FTTP footprint over the past 12 months.
- Achieved 30/30 Ofcom Copper Quality of Service measures and 5/5 Ethernet Ofcom quality of service measures for H1
- Openreach delivered solid performance for on time FTTP provision of 90% in H1
- End customer satisfaction remains high with 93% of customers survey responses scoring us between 8 to 10 at the end of H1

[1] Prior period comparatives have been re-presented for the changes detailed in the 'Re-presented' heading of the Glossary on page 3. See also note 1 to the condensed consolidated financial statements on page 15 for more details, and Additional Information on page 29 for a bridge to previously published results.
[2] Financials and commentary are based on adjusted measures; see Glossary on page 3.

Condensed consolidated financial statements

Group income statement

Half year ended 30 September 2023	Note	Before specific items (Adjusted)	Specific items (note 5)	Total (Reported)
		£m	£m	£m
Revenue	2,3	10,414	(7)	**10,407**
Operating costs	4	(8,674)	(155)	**(8,829)**
Of which net impairment losses on trade receivables and contract assets[1]		*(72)*	—	*(72)*
Operating profit (loss)		1,740	(162)	**1,578**
Finance expense		(526)	(60)	**(586)**
Finance income		91	—	**91**
Net finance expense		(435)	(60)	**(495)**
Share of post tax profit (loss) of associates and joint ventures		(7)	—	**(7)**
Profit (loss) before tax		1,298	(222)	**1,076**
Taxation		(287)	55	**(232)**
Profit (loss) for the period		1,011	(167)	**844**
Earnings per share				
- basic		10.3p	(1.7)p	**8.6p**
- diluted		10.0p	(1.7)p	**8.3p**

Half year ended 30 September 2022	Note	Before specific items (Adjusted)	Specific items (note 5)	Total (Reported)
		£m	£m	£m
Revenue	2,3	10,368	(2)	**10,366**
Operating costs	4	(8,827)	(309)	**(9,136)**
Of which net impairment losses on trade receivables and contract assets[1]		*(68)*	—	*(68)*
Operating profit (loss)		1,541	(311)	**1,230**
Finance expense		(419)	4	**(415)**
Finance income		14	—	**14**
Net finance expense		(405)	4	**(401)**
Share of post tax profit (loss) of associates and joint ventures		2	—	**2**
Profit (loss) before tax		1,138	(307)	**831**
Taxation		(158)	220	**62**
Profit (loss) for the period		980	(87)	**893**
Earnings per share				
- basic		10.0p	(0.9)p	**9.1p**
- diluted		9.7p	(0.9)p	**8.8p**

[1] Impairment losses have been presented separately in accordance with IAS 1.

Group statement of comprehensive income

	Half year ended 30 September	
	2023 £m	2022 £m
Profit for the period	**844**	893
Other comprehensive income (loss)		
Items that will not be reclassified to the income statement		
Remeasurements of the net pension obligation	(1,501)	(1,137)
Tax on pension remeasurements	375	283
Items that have been or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	2	249
Fair value movements on assets at fair value through other comprehensive income	1	(4)
Movements in relation to cash flow hedges:		
– net fair value gains (losses)[1]	(99)	2,377
– recognised in income and expense[2]	32	(1,179)
Share of other comprehensive income in associates and joint ventures	(4)	—
Tax on components of other comprehensive income that have been or may be reclassified	15	(303)
Other comprehensive income (loss) for the period, net of tax	**(1,179)**	286
Total comprehensive income (loss) for the period	**(335)**	1,179

[1] The fair value of cash flow hedges in the six months to 30 September 2022 was heavily influenced by the weakening of GBP and movement in GBP interest rates. Movements in the six months to 30 September 2023 have been modest.

[2] Movements in relation to cash flow hedge recognised in income and expense in the six months to 30 September 2022 were heavily influenced by the weakening of GBP. Movements in the six months to 30 September 2023 have been modest.

Group balance sheet

	Note	30 September 2023	31 March 2023
		£m	£m
Non-current assets			
Intangible assets		13,570	13,687
Property, plant and equipment		22,075	21,667
Right-of-use assets		3,703	3,981
Derivative financial instruments		1,282	1,397
Investments		30	29
Joint ventures and associates	12	335	359
Trade and other receivables		566	503
Preference shares in joint venture	12	535	542
Contract assets		330	369
Retirement benefit surplus		73	52
Deferred tax assets		1,083	709
		43,582	43,295
Current assets			
Inventories		404	349
Trade and other receivables		3,552	3,060
Preference shares in joint ventures		—	13
Contract assets		1,480	1,565
Assets classified as held for sale		2	21
Current tax receivable		421	427
Derivative financial instruments		113	82
Investments		3,485	3,548
Cash and cash equivalents		358	392
		9,815	9,457
Current liabilities			
Loans and other borrowings		2,075	1,772
Derivative financial instruments		50	86
Trade and other payables		6,200	6,564
Contract liabilities		882	859
Lease liabilities		807	800
Liabilities held for sale		2	4
Current tax liabilities		97	78
Provisions		226	229
		10,339	10,392
Total assets less current liabilities		**43,058**	42,360
Non-current liabilities			
Loans and other borrowings		17,811	16,749
Derivative financial instruments		285	297
Contract liabilities		183	193
Lease liabilities		4,251	4,559
Retirement benefit obligations		4,017	3,139
Other payables		759	920
Deferred tax liabilities		1,776	1,620
Provisions		337	369
		29,419	27,846
Equity			
Share capital		499	499
Share premium		1,051	1,051
Own shares		(360)	(422)
Merger reserve		998	998
Other reserves		929	957
Retained earnings		10,522	11,431
Total equity		**13,639**	14,514
		43,058	42,360

Group statement of changes in equity

	Share Capital	Share Premium	Own Shares	Merger Reserve	Other Reserves	Retained earnings	Total Equity
	£m	£m	£m	£m	£m	£m	£m
At 1 April 2023	**499**	**1,051**	**(422)**	**998**	**957**	**11,431**	**14,514**
Profit for the period	—	—	—	—	—	844	844
Other comprehensive income (loss) before tax	—	—	—	—	(96)	(1,505)	(1,601)
Tax on other comprehensive (loss) income	—	—	—	—	15	375	390
Transferred to the income statement	—	—	—	—	32	—	32
Total comprehensive income (loss) for the period	—	—	—	—	(49)	(286)	(335)
Dividends to shareholders	—	—	—	—	—	(530)	(530)
Share-based payments	—	—	—	—	—	36	36
Net buyback of own shares	—	—	62	—	—	(111)	(49)
Transfer to realised profit	—	—	—	—	20	(20)	—
Other movements	—	—	—	—	1	2	3
At 30 September 2023	**499**	**1,051**	**(360)**	**998**	**929**	**10,522**	**13,639**
At 31 March 2022	**499**	**1,051**	**(274)**	**998**	**619**	**12,403**	**15,296**
Change in accounting policy	—	—	—	—	—	(12)	(12)
At 1 April 2022	**499**	**1,051**	**(274)**	**998**	**619**	**12,391**	**15,284**
Profit for the period	—	—	—	—	—	893	893
Other comprehensive income (loss) before tax	—	—	—	—	2,622	(1,137)	1,485
Tax on other comprehensive (loss) income	—	—	—	—	(303)	283	(20)
Transferred to the income statement	—	—	—	—	(1,179)	—	(1,179)
Total comprehensive income (loss) for the period	—	—	—	—	1,140	39	1,179
Dividends to shareholders	—	—	—	—	—	(527)	(527)
Share-based payments	—	—	—	—	—	41	41
Net buyback of own shares	—	—	(109)	—	—	(26)	(135)
At 30 September 2022	499	1,051	(383)	998	1,759	11,918	15,842

Group cash flow statement

	Half year ended 30 September	
	2023	2022
	£m	£m
Cash flow from operating activities		
Profit before taxation	1,076	831
Share of post tax (profit) loss of associates and joint ventures	7	(2)
Net finance expense	495	401
Operating profit	1,578	1,230
Other non-cash charges	49	37
(Profit) loss on disposal of businesses	(38)	188
Loss on disposal of property, plant and equipment and intangible assets	3	—
Depreciation and amortisation	2,356	2,332
(Increase) decrease in inventories	(54)	(54)
Decrease in programme rights	—	7
(Increase) decrease in trade and other receivables	(689)	(393)
Decrease (increase) in contract assets	124	37
(Decrease) increase in trade and other payables	(263)	122
Increase (decrease) in contract liabilities	18	19
(Decrease) increase in other liabilities[1]	(699)	(546)
(Decrease) increase in provisions	(35)	(35)
Cash generated from operations	**2,350**	2,944
Income taxes paid	(26)	(33)
Net cash inflow from operating activities	**2,324**	2,911
Cash flow from investing activities		
Interest received	66	11
Dividends received from joint ventures, associates and investments	13	1
Proceeds on disposal of businesses	74	29
Proceeds on disposal of current financial assets[2]	5,525	5,897
Purchases of current financial assets[2]	(5,461)	(5,994)
Purchases of property, plant and equipment and intangible assets	(2,455)	(2,756)
Decrease (increase) in amounts owed by joint ventures	38	—
Settlement of off-market minimum guarantee liability with Sports JV	(111)	—
Net cash outflow from investing activities	**(2,311)**	(2,812)
Cash flow from financing activities		
Equity dividends paid	(532)	(515)
Interest paid	(463)	(391)
Repayment of borrowings[3]	(485)	—
Proceeds from bank loans and bonds	1,899	848
Payment of lease liabilities	(360)	(370)
Cash flows from derivatives related to net debt	(101)	155
(Increase) decrease in amounts owed by joint ventures	(1)	—
Proceeds from issue of own shares	35	3
Repurchase of ordinary share capital	(55)	(138)
Net cash outflow from financing activities	**(63)**	(408)
Net decrease in cash and cash equivalents	**(50)**	(309)
Opening cash and cash equivalents[4]	381	692
Net decrease in cash and cash equivalents	(50)	(309)
Effect of exchange rate changes	(3)	19
Closing cash and cash equivalents[5]	**328**	402

[1] Includes pension deficit payments of £702m for the half year to 30 September 2023 (FY23: £594m).
[2] Primarily consists of investment in and redemption of amounts held in liquidity funds.
[3] Repayment of borrowings includes the impact of hedging.
[4] Net of bank overdrafts of £11m (FY23: £85m).
[5] Net of bank overdrafts of £30mFY23: £21m).

Notes to the condensed consolidated financial statements

1. Basis of preparation and accounting policies

Basis of preparation

These condensed consolidated financial statements (the "financial statements") comprise the financial results of BT Group plc for the half years to 30 September 2023 and 2022 together with the balance sheet at 31 March 2023. The financial statements for the half year to 30 September 2023 have been reviewed by the auditors and their review opinion is on page 28 .The financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook (DTR) of the Financial Conduct Authority and with UK-adopted IAS 34 'Interim Financial Reporting'. The financial statements should be read in conjunction with the Annual Report 2023 which was prepared in accordance with UK-adopted International Financial Reporting Standards (IFRS).

The directors are satisfied that the group has adequate resources to continue in operation for a period of at least sixteen months from the date of approval of this report, notwithstanding the net current liabilities position of £524m at 30 September 2023 (£935m net current liabilities at 31 March 2023). 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 2023. When reaching this conclusion, the directors took into account:

- The group's overall financial position (including trading during the year and ability to repay term debt as it matures without recourse to refinancing); and
- Exposure to principal risks (including severe but plausible downsides).

At 30 September 2023, the group had cash and cash equivalents of £328m (net of bank overdrafts) and current asset investments of £3,485m. 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 2027.

The information for the year ended 31 March 2023 does not constitute the group's statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor has reported on those accounts; their report (i) was unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for the year to 31 March 2023.

A reference to a year expressed as FY24 is to the financial year ended 31 March 2024.

Accounting policies

Other than as stated below, the financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2023 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.

Tax

Income taxes which are accrued using the tax rate that is expected to be applicable for the full financial year.

Allocation of central costs

From 1 April 2023 we have revised the methodology used to allocate shared Network, Digital and support function costs across our units to more closely align the recharges received by each unit to their actual consumption. This represents an accounting policy change affecting the segmental results reporting in note 2 'operating results – by customer facing unit'.

In line with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors we have re-presented FY23 comparatives to enable comparability across periods.

At the same time and in line with the requirements of IFRS 8 Operating Segments, we have re-presented FY23 comparatives to reflect the merger of the Enterprise and Global CFUs into a single unit, Business, which began reporting as a single unit from 1 April 2023.

These changes affect segmental results only and have no impact on the overall reported group financial results.

The Additional Information section on page 29 presents a bridge between FY23 comparatives presented in the *Results for the half year to 30 September 2023* (published on 2 November 2022) and those presented in note 2, reflecting the change in central cost allocation methodology and the creation of the Business unit. Further information can also be found in the 'Prior period comparatives' section of the release on page 2.

New and amended accounting standards effective during the year

The following new and amended standards are effective during the year:

IFRS 17 Insurance Contracts

BT adopted IFRS 17 with retrospective application on 1 April 2023. The standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The measurement method for insurance contracts required by IFRS 17 is a probability weighted discounted cash flow model, including a best estimate and an adjustment for non-financial risk calculated for groups of similar contracts.

IFRS 17 primarily impacts insurance entities, however as it applies to individual contracts it is possible that non-insurers could issue contracts that are in scope of the standard such as product breakdown contracts or warranties.

We have assessed the impact of the standard on the group, and concluded that its impact is not material. Contracts in scope of the standard entered into by the group are restricted to intragroup insurance arrangements, and the group does not issue external insurance contracts.

Amendments to IAS 12 Income Taxes— International Tax Reform — Pillar Two Model Rules

The IASB amended the scope of IAS 12 to introduce a temporary exception from accounting for deferred taxes arising from the implementation of OECD's Pillar Two Model Rules. This was endorsed in the UK in July 2023 and applies to accounting periods beginning on or after 1 January 2023. We have therefore not recognised, or disclosed information about, deferred tax assets and liabilities related to the Pillar Two Model Rules in the interim reporting period.

Other

The following changes have not had a significant impact on our condensed consolidated financial statements:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimate (Amendments to IAS 8)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

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

There are no new or amended standards and interpretations applicable in future periods that are expected to have a significant impact on the group.

IFRS Interpretations Committee agenda decisions

The IFRS Interpretations Committee (IFRIC) periodically issues agenda decisions which explain and clarify how to apply the principles and requirements of IFRS standards. Agenda decisions are authoritative and may require the group to revise accounting policies or practice to align with the interpretations set out in the decision.

We regularly review IFRIC updates and assess the impact of agenda decisions. No agenda decisions finalised in the half year to 30 September 2023 have been assessed as having a significant impact on the group.

2. Operating results – by customer-facing unit

	Consumer	Business	Openreach	Other	Total
Half year to 30 September 2023	**£m**	**£m**	**£m**	**£m**	**£m**
Segment revenue	4,903	4,100	3,053	8	12,064
Internal revenue	(24)	(36)	(1,590)	—	(1,650)
Adjusted[1] external revenue	**4,879**	**4,064**	**1,463**	**8**	**10,414**
Adjusted EBITDA[2]	1,347	806	1,936	5	4,094
Depreciation and amortisation[1]	(840)	(490)	(992)	(32)	(2,354)
Adjusted[1] operating profit (loss)	**507**	**316**	**944**	**(27)**	**1,740**
Specific operating profit (loss) (note 5)					(162)
Operating profit					**1,578**
Half year to 30 September 2022 (re-presented[3])					
Segment revenue	4,992	4,041	2,836	14	11,883
Internal revenue	(30)	(42)	(1,443)	—	(1,515)
Adjusted[1] external revenue	**4,962**	**3,999**	**1,393**	**14**	**10,368**
Adjusted EBITDA[2]	1,225	903	1,735	10	3,873
Depreciation and amortisation[1]	(804)	(536)	(940)	(52)	(2,332)
Adjusted[1] operating profit (loss)	**421**	**367**	**795**	**(42)**	**1,541**
Specific operating profit (loss) (note 5)					(311)
Operating profit					**1,230**

[1] Before specific items, see Glossary on page 3.
[2] Adjusted EBITDA is defined in the Glossary on page 3. For the reconciliation of adjusted EBITDA, see Additional Information on page 29.
[3] Comparatives for the half year to 30 September 2022 have been re-presented for the impact of the creation of our Business customer-facing unit and a change in the methodology used to allocate shared central costs. For more information see note 1 on page 15, and for a bridge to prior period published financial information see Additional Information on page 29.

3. Operating results - disaggregation of external revenue

Half year to 30 September 2023	Consumer	Business	Openreach	Other	Total
	£m	**£m**	**£m**	**£m**	**£m**
ICT and managed networks	**—**	**1,798**	**—**	**—**	**1,798**
Fixed access subscriptions	**2,197**	**1,107**	**1,426**	**—**	**4,730**
Mobile subscriptions	**1,833**	**592**	**—**	**—**	**2,425**
Equipment and other services	**849**	**567**	**37**	**8**	**1,461**
Total adjusted[1] revenue	**4,879**	**4,064**	**1,463**	**8**	**10,414**
Specific items (note 5)					**(7)**
Total revenue					**10,407**
Half year to 30 September 2022 (re-presented[2])					
ICT and managed networks	—	1,665	—	—	1,665
Fixed access subscriptions	2,096	978	1,361	—	4,435
Mobile subscriptions	1,702	562	—	—	2,264
Equipment and other services	1,164	794	32	14	2,004
Total adjusted[1] revenue	4,962	3,999	1,393	14	10,368
Specific items (note 5)					(2)
Total revenue					10,366

[1] See Glossary on page 3.
[2] Comparatives for the half year to 30 September 2022 have been re-presented for the impact of the creation of our Business customer-facing unit, formed through the merger of our Enterprise and Global units. For more information see Glossary on page 3. Total adjusted revenue reported by Business for the half year to 30 September 2022 of £3,999m comprises revenue previously reported by Enterprise (£2,382m) and by Global (£1,617m). This total comprises ICT and managed networks revenue of £1,665m previously reported by Enterprise (£839m) and by Global(£826m); fixed access subscription revenue of £978m previously reported by Enterprise (£839m) and by Global (£139m); mobile subscription revenue of £562m previously reported by Enterprise (£522m) and by Global (£40m); and equipment and other services revenue of £794m previously reported by Enterprise (£182m) and by Global (£612m).

4. Operating costs

	Half year to 30 September	
	2023	2022
	£m	£m
Operating costs by nature		
Wages and salaries	1,938	1,923
Social security costs	210	213
Other pension costs	296	303
Share-based payment expense	37	41
Total staff costs	**2,481**	2,480
Own work capitalised	(645)	(641)
Net staff costs	**1,836**	1,839
Net indirect labour costs	210	189
Net labour costs	**2,046**	2,028
Product costs	1,658	1,510
Sales commissions	321	313
Payments to telecommunications operators	640	605
Property and energy costs	666	630
Network operating and IT costs	460	480
TV programme rights charges	—	354
Provision and installation	267	330
Marketing and sales	180	190
Net impairment losses on trade receivables and contract assets	72	68
Other operating costs	127	99
Other operating income	(117)	(112)
Depreciation and amortisation, including impairment charges	2,354	2,332
Total operating costs before specific items	**8,674**	8,827
Specific items (note 5)	155	309
Total operating costs	**8,829**	9,136

Depreciation and amortisation, which includes impairment charges, is analysed as follows:

	Half year to 30 September	
	2023	2022
	£m	£m
Depreciation and amortisation before impairment charges		
Property, plant and equipment	1,438	1,417
Right-of-use assets	330	338
Intangible assets	581	577
Impairment charges		
Property, plant and equipment	5	—
Total depreciation and amortisation before specific items	**2,354**	2,332
Impairment charges classified as specific items		
Right-of-use assets	2	—
Total operating costs	**2,356**	2,332

5. Specific items

Our income statement and segmental analysis separately identify trading results on an adjusted basis, 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 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 an additional analysis of our reporting trading results. Specific items may not be comparable to similarly titled measures used by other companies.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include significant business restructuring programmes such as the current

group-wide cost transformation and modernisation programme, acquisitions and disposals of businesses and investments, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, significant out of period contract settlements, net interest on our pension obligation, and the impact of remeasuring deferred tax balances. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific. Conversely, when a reversal occurs in relation to a prior year item not classified as specific, the reversal is not classified as specific in the current year.

Current and future movements relating to the sports joint venture (Sports JV) with Warner Bros. Discovery (WBD), such as fair value gains or losses on the A and C preference shares or impairment charges on the equity-accounted investment, will be classified as specific as they are deemed to be related to the divestment of BT Sport operations and linked to the overall fair value of the transaction. Refer to note 12 for further detail.

	Half year to 30 September	
	2023	2022
	£m	£m
Specific revenue		
Retrospective regulatory matters	**7**	2
Specific revenue	**7**	2
Specific operating costs		
Restructuring charges	**170**	122
BT Sport disposal	**—**	188
Sports JV - subsequent movements	**17**	—
Other divestment-related items	**(34)**	(1)
Specific operating costs before depreciation and amortisation	**153**	309
Restructuring impairment charges	**2**	—
Specific operating costs	**155**	309
Specific operating loss	**162**	311
Finance costs associated with BT Sport disposal	**—**	(13)
Interest expense on retirement benefit obligation	**60**	9
Net specific items charge before tax	**222**	307
Tax charge (credit) on specific items	**(55)**	(220)
Net specific items charge after tax	**167**	87

Retrospective regulatory matters

We recognised net charge of £7m in revenue in relation to historical regulatory matters (H1 FY23: £2m). These items represent movements in provisions relating to various matters.

Restructuring charges

We have incurred charges of £170m (H1 FY23: £122m) relating to projects associated with our group-wide cost transformation and modernisation programme. Costs primarily relate to leaver costs, consultancy costs, and staff costs associated with colleagues working exclusively on programme activity. The net cash cost of restructuring activity in the half year was £130m (H1 FY23: £154m).

The programme was first announced in May 2020 and runs until the end of FY25. In response to cost inflation, during FY23 we revised the gross annualised savings target to £3.0bn (previously £2.5bn), with a cost to achieve of £1.6bn (previously £1.3bn). Since embarking on the programme we have achieved gross annualised savings of £2.5bn and incurred costs of £1.3bn.

During H1 FY24, we also recognised a £2m impairment charge as specific (H1 FY23: £nil), in relation to a property rationalisation programme associated with our group-wide cost transformation and modernisation programme.

BT Sport disposal

In Q2 FY23, we recognised a net profit on disposal of the BT Sport operations of £3m in specific items, made up of £188m charges recognised within operating costs net of £191m tax credit. This was subsequently adjusted to £28m for FY23, driven by a £33m increase in the charges recognised within operating costs, offset by an £8m decrease in the related tax credit. The difference is not quantitatively material and does not impact qualitative disclosures of our KPIs, and therefore we have not re-presented the comparative period presented above. Further details on the BT Sport disposal can be found in note 23 of the Annual Report 2023.

Sports JV - subsequent movements

Subsequent to the disposal of BT Sport, we have recorded charges of £17m (H1 FY23: £nil) in specific items which primarily relate to net fair value movements on the A and C preference shares in the Sports JV, see note 12 for more details.

Other divestment-related items

We recognised a net £34m credit (H1 FY23: £1m credit) relating to divestment projects. The net credit in the half year primarily relates to the gains on disposal recognised on completion of the divestments of Pelipod Limited and

certain city fibre networks and associated infrastructure assets in Germany, both of which completed during the half year.

Interest expense on retirement benefit obligation

During the year we incurred £60m (H1 FY23: £9m) of interest costs in relation to our defined benefit pension obligations.

Tax on specific items

A tax credit of £55m (H1 FY23: £220m) was recognised in relation to specific items. £191m of the amount recognised in H1 FY23 relates to the BT Sport disposal.

6. Pensions

	30 September 2023	31 March 2023
	£bn	£bn
IAS 19 liabilities – BTPS	**(38.1)**	(41.6)
Assets – BTPS	**34.3**	38.7
Other schemes	**(0.1)**	(0.2)
Total IAS 19 deficit, gross of tax[1]	**(3.9)**	(3.1)
Total IAS 19 deficit, net of tax	**(3.1)**	(2.5)
Discount rate (nominal)	**5.65 %**	4.85 %
Future inflation – average increase in RPI (p.a.)	**3.45 %**	3.35 %
Future inflation – average increase in CPI (p.a.)	**2.95 %**	2.85 %

[1] Of which £(4.0)bn relates to schemes in deficit (31 March 2023: £(3.2)bn) and £0.1bn relates to schemes in surplus (31 March 2023: £0.1bn).

The IAS 19 deficit has increased from £3.1bn at 31 March 2023 to £3.9bn at 30 September 2023.

The BT Pension Scheme (BTPS) hedges inflation and interest rate risk with reference to the funding deficit, mechanically leading to the BTPS being over hedged on an IAS 19 measure. In addition, the IAS 19 liabilities are set by reference to the yield on corporate bonds. The increase in real yields and the narrowing of credit spreads over H1 have therefore contributed to an increase in the deficit, partly offset by deficit contributions of £0.7bn. By contrast, these factors would not contribute to an increase in the funding deficit.

7. Financial instruments and risk management

Fair value of financial assets and liabilities measured at amortised cost

At 30 September 2023, the fair value of listed bonds was £17,672m (31 March 2023: £16,979m) and the carrying value was £18,976m (31 March 2023: £17,796m).

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 2023.

Current trade and other payables balance of £6,200m includes:

- £230m (31 March 2023: £348m) of trade payables in a supply chain financing programme used with a limited number of suppliers to extend short payment terms to a more typical payment term.
- £164m (31 March 2023: £169m) of trade payables in a separate supply chain financing programme that allows suppliers the opportunity to receive funding earlier than the invoice due date. Financial institutions are used to support this programme but we continue to recognise the underlying payables as we continue to cash settle the supplier invoices in accordance with their terms.

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.

Level 2 balances are the fair values of the group's outstanding derivative financial assets and liabilities which were estimated using discounted cash flow models and market rates of interest and foreign exchange at the balance sheet date.

Level 3 balances comprise the following financial instruments classified as fair value through profit and loss and fair value through other comprehensive income:

- A and C preference shares in the Sports JV, see note 12 for more details.
- Investments in a number of private companies. In the absence of specific market data, these investments are held at cost, adjusted as necessary for impairments, which approximates to fair value.
- Derivative energy contracts, estimated using discounted cash flow models and the latest forward energy curves at the balance sheet date.

	Level 1	Level 2	Level 3	Total held at fair value
30 September 2023	**£m**	**£m**	**£m**	**£m**
Preference shares in joint venture				
Fair value through profit and loss	**—**	**—**	**535**	**535**
Investments				
Fair value through other comprehensive income	**—**	**—**	**24**	**24**
Fair value through profit and loss	**6**	**—**	**—**	**6**
Derivative assets				
Designated in a hedge	**—**	**1,282**	**15**	**1,297**
Fair value through profit and loss	**—**	**98**	**—**	**98**
Total assets	**6**	**1,380**	**574**	**1,960**
Derivative liabilities				
Designated in a hedge	**—**	**228**	**31**	**259**
Fair value through profit and loss	**—**	**73**	**3**	**76**
Total liabilities	**—**	**301**	**34**	**335**

	Level 1	Level 2	Level 3	Total held at fair value
31 March 2023	**£m**	**£m**	**£m**	**£m**
Preference shares in joint venture				
Fair value through profit and loss	—	—	555	555
Investments				
Fair value through other comprehensive income	—	—	23	23
Fair value through profit and loss	6	—	—	6
Derivative assets				
Designated in a hedge	—	1,350	58	1,408
Fair value through profit and loss	—	71	—	71
Total assets	6	1,421	636	2,063
Derivative liabilities				
Designated in a hedge	—	316	1	317
Fair value through profit and loss	—	64	2	66
Total liabilities	—	380	3	383

Net losses of £24m and £69m have been recognised in the income statement and other comprehensive income respectively in respect of fair value movements on level 3 instruments during the half year ended 30 September 2023. Of the £24m loss recognised in the income statement £3m loss is in respect of recycling from cash flow hedge reserve. There were no changes to the valuation methods or transfers between levels 1, 2 and 3 during the half year.

8. Share capital

In the half year to 30 September 2023, 81m shares (H1 FY23: 14m) at a total cost of £146m (H1 FY23: £28m), calculated at a weighted average cost per share, were transferred from own shares (comprising Treasury shares and shares held under the BT Group Employee Share Ownership Trust) to satisfy obligations under all-employee and executive share plans. We received cash proceeds of £35m (H1 FY23: £2m) in respect of share options exercised.

Own shares of £83m (H1 FY23: £138m) were purchased during the year.

9. Financial commitments

Financial commitments as at 30 September 2023 include capital commitments of £1,309m (31 March 2023: £1,480m).

10. Dividends

In line with the group's dividend policy, the Board has approved an interim dividend of 2.31p (H1 FY23: 2.31p), which will be paid on 2 February 2024. The ex-dividend date is 28 December 2023.

11. Contingent liabilities and legal proceedings

In the ordinary course of business, we are periodically notified of actual or threatened litigation, and regulatory and compliance matters and investigations. We have disclosed below a number of such matters including any matters where we believe a material adverse impact on the operations or financial condition of the group is possible and the likelihood of a material outflow of resources is more than remote.

Where the outflow of resources is considered probable, and a reasonable estimate can be made of the amount of that obligation, a provision is recognised for these amounts. Where an outflow is not probable but is possible, or a reasonable estimate of the obligation cannot be made, a contingent liability exists.

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.

Class action claim

In January 2021, Justin Le Patourel, represented by law firm Mishcon de Reya applied to the Competition Appeal Tribunal to bring a proposed class action claim for damages they estimated at £608m (inclusive of compound interest) or £589m (inclusive of simple interest) alleging anti-competitive behaviour through excessive pricing by BT to customers with certain residential landline services. Ofcom considered this topic more than five years ago. At that time, Ofcom's final statement made no finding of excessive pricing or breach of competition law more generally. The claim seeks to hold against us the fact that we implemented a voluntary commitment to reduce prices for customers that have a BT landline only and not to increase those prices beyond inflation (CPI). In September 2021 the Competition Appeal Tribunal certified the claim to proceed to a substantive trial on an opt-out basis (class members are automatically included in the claim unless they choose to opt-out). In July 2023 Justin Le Patourel amended his claim seeking increased damages estimated at £1,338m (inclusive of compound interest) or £1,309m (inclusive of simple interest). The parties are preparing for trial, with exchanges of expert reports currently underway. In September 2023 within its expert evidence claimed estimate of damages was revised to £1,322m (inclusive of compound interest) or £1,292m (inclusive of simple interest). A hearing window has been set for January – April 2024. BT intends to defend itself vigorously. At the reporting date we are not aware of any evidence to indicate that a present obligation exists such that any amount should be provided for.

Italian business

Milan Public Prosecutor prosecutions: In February 2019 the Milan Public Prosecutor served BT Italia S.P.A. (BT Italia) with a notice (which named BT Italia, as well as various individuals) to record the Prosecutor's view that there is a basis for proceeding with its case against BT Italia for certain potential offences, namely the charge of having adopted, from 2011 to 2016, an inadequate management and control organisation model for the purposes of Articles 5 and 25 of Legislative Decree 231/2001. BT Italia disputes this and maintains in a defence brief filed in April 2019 that: (a) BT Italia did not gain any interest or benefit from the conduct in question; and (b) in any event, it had a sufficient organisational, management and audit model that was circumvented/overridden by individuals acting in their own self-interest. However, following a series of committal hearings in Autumn 2020, on 10 November 2020, the Italian court agreed (as is the normal process unless there are limitation or other fundamental issues with the claim) that BT Italia, and all but one of the individuals, should be committed to a full trial. The trial commenced on 26 January 2021 and is ongoing. On 23 April 2021, the Italian court allowed some parties to be joined to the criminal proceedings as civil parties ('parte civile') – a procedural feature of the Italian criminal law system. These claims are directed at certain individual defendants (which include former BT/ BT Italia employees). Those parties successfully joined BT Italia as a respondent to their civil claims ('responsabile civile') on the basis that it is vicariously responsible for the individuals' wrongdoing. If successful, the quantum of those claims is not anticipated to be material.

Accounting misstatement claims: a law firm acting on behalf of a group of investors has made claims under s.90A of the Financial Services & Markets Act 2000, alleging that untrue or misleading statements were made in relation to the historical irregular accounting practices in BT's Italian business (which have been the subject of previous disclosures). No value is stated and the matter is in the early stages. As mentioned in our earlier reports, the accounting issues in Italy have previously been the subject of class actions in the US that were dismissed by the US courts.

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. The trial on the question of liability/breach ran from May to July 2022. The court has not yet delivered its judgment but it is expected shortly. A second trial on causation and quantum would be required in the event of a finding for the claimant. We continue to dispute these allegations vigorously.

UK Competition and Markets Authority (CMA) investigation

On 12 July 2022 the CMA opened a competition law investigation into BT and other companies involved in the purchase of freelance services for the production and broadcasting of sports content in the UK. The investigation is focused on BT Sport. In February 2023, the CMA extended its investigation to include suspected breaches of competition law in relation to the employment of staff supporting the production and broadcasting of sports content in the UK. The CMA has said no assumption should be made at this stage that competition law has been infringed. BT is cooperating with the investigation.

12. Joint ventures and associates

	30 September 2023	31 March 2023
	£m	£m
Interest in joint ventures	331	354
Interest in associates	4	5
Closing balance	**335**	**359**

The sports joint venture (Sports JV) with Warner Bros. Discovery (WBD), see below, is the only material equity-accounted investment held by the group.

Sports JV

In FY23 we formed the Sports JV with WBD combining BT Sport and WBD's Eurosport UK business. The group holds both ordinary equity shares and preference shares in the Sports JV entity.

Ordinary equity shares

Our retained ordinary equity interest in the Sports JV is held under the equity method of accounting, consistent with our accounting policy on associates and joint ventures.

	£m
Carrying amount at 1 April 2023	352
Share of total comprehensive loss for the period	(23)
Dividends received during the period	—
Carrying amount at 30 September 2023	**329**

The Sports JV had a loss after tax for the 6 months to 30 September 2023 of £38m, after adjustments made to align with the group's accounting policies; underlying trading, before these adjustments, was profitable. In addition, the Sports JV had other comprehensive losses of £8m relating to fair value movements on its foreign exchange hedging arrangement with the group (see note 13) that have been designated as cash flow hedges. Our share of the Sports JV's results in FY23 included amortisation from provisional fair value adjustments, which have been finalised with an immaterial true-up recorded in the six months to 30 September 2023.

As required by IAS 36, we have assessed the investment for impairment. There is no impairment at 31 March 2023 as the fair value less costs to sell is higher than the carrying amount of the investment. See below for sensitivities we have applied in determining the fair value less costs to sell.

Preference shares

In addition to the group's ordinary equity shareholding, BT held the following investments in preference shares in the Sports JV that have not been included within the equity-accounted interest above.

	30 September 2023	31 March 2023
	£m	£m
Investment in A preference shares	407	429
Investment in C preference shares	128	126
Closing balance	**535**	**555**

- **A preference shares** - we expect these shares to be redeemed by the Sports JV over the 4-year earn-out period for the distribution of cash to BT under our earn-out entitlement. The fair value of the shares is driven by the underlying cash profit generation of the Sports JV and therefore has been classified as a fair value through profit of loss (FVTPL) financial asset under IFRS 9. A £22m fair value loss has been recognised

through specific items (see note 5) driven by a change in the forecasted cash flows and an increase in the discount rate applied.

- **C preference shares** – these shares are expected to be sold to WBD at the end of BT's earn-out entitlement in consideration for any sports rights funded by BT at that point and have been recognised as a financial asset held at FVTPL under IFRS 9. A £2m fair value gain has been recognised through specific items (see note 5).

The preference shares are held at Level 3 on the fair value hierarchy, reflecting a valuation methodology that does not use inputs based on observable market data. See below for sensitivities we have applied in determining the fair value.

Sensitivities

The group's ordinary equity and preference share investments in the Sports JV, carry both upside and downside risk from changes in micro and macro-economic factors affecting the wider market. Further, there are material commercial and strategic decision points for the Sports JV in the next twelve months, the outcomes of which could significantly impact the value of our A and C preference share investments.

We have applied the following sensitivities to these risk factors:

- EBITDA decline from loss of revenue or increase to cost base;
- EBITDA improvement from outperformance against revised forecasts;
- Increase or decrease in the valuation multiple achieved; and
- Increase or decrease in the discount rate applied.

Sensitivity	Fair value of A and C preference shares in Sports JV	Headroom on impairment test over equity-accounted investment
5% increase or decrease in EBITDA	+/- £23m	+/- £26m
10pp increase or decrease in discount rate	+/- £11m	+/- £13m
10% change in valuation multiple	—	+/- £51m

None of these sensitivities generated an impairment on the group's equity-accounted investment in the Sports JV.

13. Related party transactions

Related party transactions with the group's key management personnel and retirement benefit plans, and with entities owned by the BT Pension Scheme, are set out in the group's financial statements for the year ended 31 March 2023. There have been no material changes in these relationships during the six months ended 30 September 2023 or up to the date of this announcement.

Associates and joint ventures related parties include the Sports JV formed in August 2022 (see note 12). Sales of services to the Sports JV during the half year to 30 September 2023 were £18m and purchases from the Sports JV were £152m. The amount receivable from the Sports JV as at 30 September 2023 was £32m (31 March 2023 £10m) and the amount payable to the Sports JV was £91m (31 March 2023 £123m).

As part of the BT Sport transaction, the group has committed to providing the Sports JV with a sterling Revolving Credit Facility (RCF), up to a maximum for £300m, for short-term liquidity required by the Sports JV to fund its working capital and commitments to sports rights holders. Amounts drawn down by the Sports JV under the RCF accrue interest at a market reference rate, consistent with the group's external short-term borrowings. The outstanding balance under the RCF of £233m is treated as a loan receivable and held at amortised cost. The capacity of the RCF is expected to reduce to £200m in the medium term. There is also a loan payable to the Sports JV of £10m.

The Sports JV has a foreign exchange hedging arrangement with the group to secure Euros required to meet its commitments to certain sports rights holders; the group has external forward contracts in place to purchase the Euros at an agreed sterling rate in order to mitigate its exposure to exchange risk. The group holds a £6m derivative liability in respect of forward contracts provided to the Sports JV.

Transactions from commercial trading arrangements with associates and joint ventures, including the Sports JV, are shown below:

	30 September 2023	31 March 2023
	£m	£m
Sales of services to associates and joint ventures	**20**	29
Purchases from associates and joint ventures	**177**	216
Amounts receivable from associates and joint ventures	**32**	10
Amounts payable to associates and joint ventures	**92**	124

Other related party transactions include the purchase of energy from an entity owned by the BT Pension Scheme. Total purchases during the half year to 30 September 2023 were £4m (H1 FY23: £5m). £1m was due to the other party as at 30 September 2023 (H1 FY23: £1m). The balance is unsecured and no guarantees have been given.

14. Principal risks and uncertainties

We have processes for identifying, evaluating and managing our risks. Whilst individual risks continue to evolve, overall we do not consider that there has been a material change to any of our principal risks and uncertainties as presented on pages 63 to 70 of the Annual Report 2023. These are summarised below and have the potential to have an adverse impact on our profit, assets, liquidity, capital resources and reputation.

Strategic

Strategy, technology and competition - While developing and executing a strategy to grow value for stakeholders, we must manage risks from an uncertain economic context, intensifying competition and rapid changes in customer and technology trends. Similarly, pursuing the wrong strategy, not reflecting strategy in business plans, or not executing against it could make us less competitive and create less long-term sustainable value.

Stakeholder management - Trusted stakeholder management is essential to us achieving our ambitions. We listen to and communicate with stakeholders fairly and transparently to build strong, sustainable relationships. Some sensitive topics need extra focus. These include network plans, customer fairness, net neutrality, using technology responsibly, ESG and industrial relations.

Financial

Financing - We rely on cash generated by business performance supplemented by capital markets, credit facilities and cash balances to finance operations, pension scheme, dividends and debt repayments. We might not be able to fund our business cash flows or meet payment commitments to shareholders, lenders or our pension schemes.

Financial control - We have financial controls in place to prevent fraud (including misappropriation of assets) and to report accurately. If these failed it could result in material financial losses or cause us to misrepresent our financial position. We might fail to apply the correct accounting principles and treatment. This could result in financial misstatement, fines, legal disputes and reputational damage.

Compliance

Communications regulation - We work with key regulators as they define clear, predictable and proportionate regulations which protect customers and society while ensuring service providers can compete fairly. We must work in compliance with those regulations, maintain trust and strong relationships while delivering on our vision and sustainable value growth. Areas of ongoing, industry-wide regulatory scrutiny include billing accuracy, customer complaints, support for vulnerable customers, migration away from legacy services and management of major incidents.

Data - Our data strategy seeks to create value and enable efficiency while providing a robust framework for data governance and regulatory compliance. Not following data protection laws or regulations could damage our reputation and stakeholder trust, harm colleagues, customers or suppliers and/or lead to litigation, fines and penalties.

Legal compliance - We focus on remaining in compliance with all substantive laws. Key areas of focus are anti-bribery and corruption, competition law, trade sanctions, export controls and corporate governance obligations.

Financial services - Operating outside FCA rules, requirements or permissions could harm customers and lead to fines, loss of FCA permissions, slow service take-up and broader reputational damage.

Operational

Operational resilience - We want to deliver best-in-class performance across our fixed and mobile networks and IT by managing all the risks that could disrupt our services. Service interruptions could be caused by things like bad weather or accidental or deliberate damage to our assets. Some service interruptions might depend on suppliers' and partners' reliability – making picking the right ones important.

Cyber security - Our aim is to protect the group, colleagues and customers from harm and financial loss from cyber security events. Because we run critical national infrastructure, a cyber attack could disrupt both customers and the country and compromise data. A poorly managed cyber security event might cost us money, damage our reputation and impact our market share. The regulator might also impose fines or penalties.

People - Our people strategy is to enable a culture where all our colleagues can be their best and help deliver our ambition. This means we must manage risk around our organisational structure, skills and capabilities, engagement and culture, wellbeing and diversity.

Health, safety and environment - Not maintaining or continually improving the right health, safety and environmental management systems could impact our provision of a safe and compliant business which protects colleagues, partners or the public. Ineffective health, safety and environmental standards could lead to legal or financial penalties, and reputational and commercial damage.

Major customer contracts - We offer and deliver a diverse mix of major contracts which contribute to our business performance and growth. Customer contractual terms can be onerous and challenging to meet which might lead to delays, penalties and disputes. Delivery or service failures against obligations and commitments could damage our brand and reputation, particularly for critical infrastructure contracts or security and data protection services. Not managing contract exits, migrations, renewals and disputes could erode profit margins and affect future customer relationships.

Customers, brand and product - We want to give customers standout service, building personal and enduring relationships and taking extra care of vulnerable customers. Not digitising or continually improving our customer experience could affect customer satisfaction and retention, colleague pride and advocacy, revenues and brand value. Central to this is being accurate and competitive with our pricing, billing and collection. We must also manage our product and service lifecycles, inventory and supply chain, and comply with our customer obligations and product and service standards.

Supply management - Successfully selecting, bringing on board and managing suppliers is essential for us to deliver quality products and services. We have a lot of suppliers. We must make supplier decisions on concentration, capability, resilience, security, costs and broader issues that could impact our business and reputation.

Transformation delivery - We are modernising and streamlining our IT, simplifying and refining our product portfolio, switching to next-generation strategic networks, unlocking cost efficiencies through better and more agile ways of working, improving our customers' digital journeys, automating our processes and using AI. Failing to transform could make us less efficient and damage our financial performance and customer experience.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with UK-adopted IAS 34 'Interim Financial Reporting';
- the interim management report includes a fair review of the information required by DTR 4.2.7R (the indication of important events and their impact during the first six months and description of principal risks and uncertainties for the remaining six month of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Philip Jansen	Simon Lowth
Group Chief Executive	Group Chief Financial Officer
1 November 2023	1 November 2023

INDEPENDENT REVIEW REPORT TO BT GROUP PLC

Conclusion

We have been engaged by BT Group plc ("the Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2023 which comprises Group income statement, Group statement of comprehensive income, Group balance sheet, Group statement of changes in equity, Group 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 2023 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity ("ISRE (UK) 2410") issued 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.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Group to cease to continue as a going concern, and the above conclusions are not a guarantee that the Group will continue in operation.

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 UK-adopted international accounting standards.

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 for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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.

Jonathan Mills
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square, London, E14 5GL
1 November 2023

Additional Information

Notes

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 adjusted earnings before interest, tax, depreciation and amortisation

In addition to measuring financial performance of the group and customer-facing units based on adjusted operating profit, we also measure performance based on adjusted EBITDA. Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures.

We consider adjusted EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. Adjusted EBITDA is not a direct measure of our liquidity, which is shown by our cash flow statement, and needs to be considered in the context of our financial commitments.

A reconciliation of reported profit for the period, the most directly comparable IFRS measure, to adjusted EBITDA, is set out below.

	Half year to 30 September	
	2023	2022
	£m	£m
Reported profit for the period	**844**	893
Tax	**232**	(62)
Reported profit before tax	**1,076**	831
Net finance expense	**495**	401
Depreciation and amortisation	**2,356**	2,332
Specific revenue	**7**	2
Specific operating costs before depreciation and amortisation	**153**	309
Share of post tax (profits) losses of associates and joint ventures	**7**	(2)
Adjusted[1] EBITDA	**4,094**	3,873

[1] See Glossary on page 3.

Normalised free cash flow

Normalised free cash flow is one of the group's key performance indicators by which our financial performance is measured. It is primarily a liquidity measure. However, we also believe it is an important indicator of our overall operational performance as it reflects 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.

Normalised free cash flow is defined as free cash flow (net cash inflow from operating activities after net capital expenditure) after net interest paid, payment of lease liabilities, net cash flows from the sale of cash flows related to contract assets, monies received as prepayment for the sale of redundant copper, dividends received from non-current asset investments, associates and joint ventures, and net purchase or disposal of non-current asset investments, before pension deficit payments (including their cash tax benefit), payments relating to spectrum, and specific items. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends paid, share buybacks, acquisitions and disposals, repayment and raising of debt, cash flows relating to loans with joint ventures, and cash flows relating to the Building Digital UK demand deposit account which have already been accounted for within normalised free cash flow. For non-tax related items the adjustments are made on a pre-tax basis.

As communicated in our Q4 FY23 results release, from FY24 we have updated our normalised free cash flow metric to reflect the ongoing evolution of the business:

- We include the sale of cash flows of contract assets related to mobile handsets where the performance obligations have been substantially delivered to the customer. This is a financing cash flow in the cash flow

statement as certain performance obligations in the contract need to be fulfilled before the right to consideration is unconditional. The underlying rationale for entering into these transactions is however for the purpose of working capital management as handset costs are incurred up front but recovered throughout the customer contract term. We therefore view the related cash flows as equivalent to working capital cash flows internally, and consider that they should be treated in the same way as operating cash inflows in our external normalised free cash flow metric in order to provide the most relevant information to the users of the financial statements. The corresponding operating cash inflow received from customers is excluded from normalised free cash flow if it has previously been included at the time of the sale of the contract assets.

- We will include monies received as prepayment for the forward sale of future redundant copper. In the cash flow statement this will be recorded within cash flows from investing activities as a separate line item, and will be the only cash flow recognised in respect of the transaction. We therefore consider it necessary to include the inflow within normalised free cash flow to align with the treatment of cash flows from all other purchases and disposals of property, plant and equipment.

Normalised free cash flow is not a measure of the funds that are available for distribution to shareholders.

A reconciliation from cash inflow 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	
	2023	2022
	£m	£m
Cash generated from operations	**2,350**	2,944
Tax paid	**(26)**	(33)
Net cash inflows from operating activities	**2,324**	2,911
Net purchase of property, plant and equipment and intangible assets	**(2,455)**	(2,756)
Free cash flow	**(131)**	155
Interest received	**66**	11
Interest paid	**(463)**	(391)
Payment of lease liabilities	**(360)**	(370)
Dividends received from joint ventures, associates and investments	**13**	1
Add back pension deficit payments	**702**	594
Add back net cash flow from specific items	**204**	165
Cash flows relating to the BDUK demand deposit account	**66**	(101)
Net cashflows from sale of contract assets related to mobile handsets	**359**	—
Monies received as prepayment for forward sale of copper	—	—
Normalised free cash flow	**456**	64

Net debt and net financial debt

Net debt consists of loans and other borrowings, 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. Amounts due to joint ventures and loans and borrowings recognised in relation to monies received from the sale of cash flows of contract assets and as prepayment for the forward sale of redundant copper are excluded. Currency-denominated balances within net debt are translated to sterling at swap rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed.

Net debt is a measure of the group's net indebtedness that provides an indicator of overall balance sheet strength. It is a key indicator used by management to assess both the group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

As aligned with our normalised free cash flow metric, we will exclude loans and borrowings, arising from FY24 onwards, recognised in relation to:

- Asset monetisation programmes, in which monies received from the sale of cash flows of contract assets are recorded as liabilities (and the contract asset is not derecognised) until certain performance obligations in the contract are fulfilled and the right to consideration becomes unconditional. Excluding these liabilities is considered to improve the relevance of the net debt metric as it is consistent with the treatment of related cash flows in normalised free cash flow as noted above; and aligns with the underlying rationale and management's view that substantially all the risks and rewards associated with ownership of these assets have been transferred to the end buyer. These liabilities do not reflect the group's indebtedness as they will be extinguished upon the transfer of ringfenced operational cash flows from end customers which management are confident will be received.
- Monies received as prepayment for the forward sale of redundant copper, which are recognised as liabilities until there is physical delivery of the copper. Excluding these liabilities is again considered to improve the

relevance of the net debt metric by aligning with the treatment of related cash flows in normalised free cash flow and the fact that balances are not representative of the group's true indebtedness given that they will be settled by the physical delivery of copper, rather than cash or any other financial asset.

Net financial debt is net debt excluding lease liabilities. It allows for the comparison to net debt measures reported before the introduction of IFRS 16 on 1 April 2019, and reflects a view that lease liabilities are operational debt in substance, rather than financing transactions.

Net debt and net financial debt are considered to be alternative performance measures as they are not defined in IFRS. 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 and net financial debt, is set out below.

	30 September 2023	31 March 2023
	£m	£m
Loans and other borrowings	**19,886**	18,521
Lease liabilities	**5,058**	5,359
Cash and cash equivalents	**(358)**	(392)
Current asset investments	**(3,485)**	(3,548)
Net lease liabilities classified as held for sale	**2**	3
	21,103	19,943
Adjustments:		
To re-translate currency denominated balances at swapped rates when hedged[1]	**(804)**	(819)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	**(237)**	(254)
Net loans with joint ventures	**(10)**	(11)
Loans related to sale of contract assets	**(363)**	—
Net debt	**19,689**	18,859
Lease liabilities	**(5,058)**	(5,359)
Lease liabilities classified as held for sale	**(2)**	(3)
Net financial debt	**14,629**	13,497

[1] The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.

Adjustments to prior period published financial information: changes in central cost allocation methodology, the creation of Business and the Sports JV pro forma

Changes in central cost allocation methodology and the creation of Business

From 1 April 2023 we have revised the methodology used to allocate shared Network, Digital and support function costs across our units to more closely align the recharges received by each unit to their actual consumption.

Also from 1 April 2023, the Business customer-facing unit (formed from the merger of Enterprise and Global) began reporting as a single unit.

As explained in note 1 to the condensed consolidated financial statements (page 15) we have re-presented relevant FY23 comparatives to reflect both of these changes in line with IFRS accounting requirements. These adjustments are reflected in the operating review section of the release and the condensed consolidated financial statements.

The tables below presents a bridge between the results presented in the *Results for the half year to 30 September 2023* (published on 2 November 2022) and the re-presented FY23 comparatives presented within this release.

Half year to 30 September 2022	Reported basis	Re-presentation adjustment	Re-presented basis
	£m	£m	£m
Adjusted revenue			
Consumer	4,992	—	4,992
Business	—	4,041	4,041
Legacy Enterprise	2,439	(2,439)	—
Legacy Global	1,617	(1,617)	—
Openreach	2,836	—	2,836
Other	14	—	14
Intra-group items	(1,530)	15	(1,515)
Total Group	**10,368**	**—**	**10,368**
Adjusted EBITDA			
Consumer	1,295	(70)	1,225
Business	—	903	903
Legacy Enterprise	660	(660)	—
Legacy Global	197	(197)	—
Openreach	1,711	24	1,735
Other	10	—	10
Total Group	**3,873**	**—**	**3,873**
Adjusted operating costs			
Consumer	3,697	70	3,767
Business	—	3,138	3,138
Legacy Enterprise	1,779	(1,779)	—
Legacy Global	1,420	(1,420)	—
Openreach	1,125	(24)	1,101
Other	4	—	4
Intra-group items	(1,530)	15	(1,515)
Total Group	**6,495**	**—**	**6,495**
Adjusted depreciation & amortisation			
Consumer	701	103	804
Business	—	536	536
Legacy Enterprise	437	(437)	—
Legacy Global	155	(155)	—
Openreach	987	(47)	940
Other	52	—	52
Total Group	**2,332**	**—**	**2,332**
Adjusted operating profit			
Consumer	594	(173)	421
Business	—	367	367
Legacy Enterprise	223	(223)	—
Legacy Global	42	(42)	—
Openreach	724	71	795
Other	(42)	—	(42)
Total Group	**1,541**	**—**	**1,541**

Half year to 30 September 2022	Reported basis	Re-presentation adjustment	Re-presented basis
	£m	£m	£m
Capital expenditure			
Consumer	583	13	596
Business	—	448	448
Legacy Enterprise	311	(311)	—
Legacy Global	125	(125)	—
Openreach	1,490	14	1,504
Other	104	(39)	65
Total Group	**2,613**	**—**	**2,613**
Normalised free cash flow			
Consumer	460	(84)	376
Business	—	12	12
Legacy Enterprise	112	(112)	—
Legacy Global	(128)	128	—
Openreach	53	6	59
Other	(433)	50	(383)
Total Group	**64**	**—**	**64**
Adjusted external revenue			
Consumer	4,962	—	4,962
Business	—	3,999	3,999
Legacy Enterprise	2,382	(2,382)	—
Legacy Global	1,617	(1,617)	—
Openreach	1,393	—	1,393
Other	14	—	14
Total Group	**10,368**	**—**	**10,368**
Adjusted internal revenue			
Consumer	30	—	30
Business	—	42	42
Legacy Enterprise	57	(57)	—
Legacy Global	—	—	—
Openreach	1,443	—	1,443
Other	—	—	—
Total Group	**1,530**	**(15)**	**1,515**

Second quarter to 30 September 2022	Reported basis	Re-presentation adjustment	Re-presented basis
	£m	£m	£m
Adjusted revenue			
Consumer	2,490	—	2,490
Business	—	2,074	2,074
Legacy Enterprise	1,239	(1,239)	—
Legacy Global	843	(843)	—
Openreach	1,419	—	1,419
Other	7	—	7
Intra-group items	(763)	8	(755)
Total Group	**5,235**	**—**	**5,235**
Adjusted EBITDA			
Consumer	670	(35)	635
Business	—	469	469
Legacy Enterprise	345	(345)	—
Legacy Global	101	(101)	—
Openreach	860	12	872
Other	(6)	—	(6)
Total Group	**1,970**	**—**	**1,970**
Adjusted operating costs			
Consumer	1,820	35	1,855
Business	—	1,605	1,605
Legacy Enterprise	894	(894)	—
Legacy Global	742	(742)	—
Openreach	559	(12)	547
Other	13	—	13
Intra-group items	(763)	8	(755)
Total Group	**3,265**	**—**	**3,265**

Sports JV pro forma basis

On 3 September 2022 BT Group and Warner Bros. Discovery announced completion of their transaction to form a 50:50 joint venture (JV) combining the assets of BT Sport and Eurosport UK. On 18 October 2022 we published unaudited pro forma financial information estimating the impact on the group as if trading in relation to BT Sport had been equity accounted for in previous periods, akin to the JV being in place historically.

Within pages 1 to 9 of this results release, when discussing the performance of BT Group and our Consumer customer-facing unit we reference pro forma information relating to FY23 prior period comparatives (i.e. the half year ended 30 September 2022). We consider analysis on a pro forma basis to be appropriate as it enables comparison of results on a like-for-like basis.

Results presented in the condensed consolidated financial statements (pages 10 to 14) do not reflect these unaudited pro forma adjustments.

The table below presents a bridge between the re-presented FY23 comparatives and the pro forma FY23 comparatives presented within this release.

Half year to 30 September 2022	Reported basis (re-presented[1])	Sports JV pro forma adjustment	Sports JV pro forma basis
	£m	£m	£m
BT Group			
Adjusted[2] revenue	10,368	(238)	10,130
Adjusted[2] EBITDA	3,873	71	3,944
Consumer			
Adjusted[2] revenue	4,992	(238)	4,754
Adjusted[2] EBITDA	1,225	71	1,296
Capital expenditure	596	(1)	595
Normalised free cash flow[2]	376	123	499

[1] Consumer prior period comparatives as reported in the Q2 FY23 results release have been re-presented for the changes detailed under the 'Re-presented' heading of the Glossary on page 3.
[2] See Glossary on page 3.

About BT Group

BT Group is the UK's leading provider of fixed and mobile telecommunications and related secure digital products, solutions and services. We also provide managed telecommunications, security and network and IT infrastructure services to customers across 180 countries.

BT Group consists of three customer-facing units: Business covers companies and public services in the UK and internationally; Consumer serves individuals and families in the UK; Openreach is an independently governed, wholly owned subsidiary wholesaling fixed access infrastructure services to its customers - over 650 communications providers across the UK.

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

Enquiries

Press office:	Tom Engel Richard Farnsworth	Tel: 07947 711 959 Tel: 07734 776 317
Investor relations:	Mark Lidiard	Tel: 0800 389 4909

We will hold the second quarter and half year FY24 results call for analysts and investors in London at 10am today and a simultaneous webcast will be available at www.bt.com/results.

We are scheduled to release our third quarter trading statement for FY24 on 1 February 2024.

Forward-looking statements – caution advised

Certain information included in this announcement is forward looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward looking statements. Forward looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations. Forward looking statements can be identified by the use of forward looking terminology, including terms such as 'believes', 'estimates', 'anticipates', 'expects', 'forecasts', 'intends', 'plans', 'projects', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology. Forward looking statements in this announcement are not guarantees of future performance. All forward looking statements in this announcement are based upon information known to the Company on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward looking statements, which speak only at their respective dates. Additionally, forward looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.