

British Telecommunications plc

Results for the half year to 30 September 2023

10 November 2023

About BT

British Telecommunications plc ('BT' or 'group') is a wholly-owned subsidiary of BT Group Investments Ltd, which encompasses virtually all businesses and assets of the BT Group. The ultimate parent company is BT Group plc, which is listed on the London Stock Exchange.

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

The directors at 30 September 2023 were Simon Lowth, Neil Harris, Roger Eyre, Edward Heaton and Daniel Rider, all of whom served as directors throughout the period.

Half year to 30 September	2023	2022	Change
Reported measures	£m	£m	%
Revenue	10,407	10,366	—
Profit before tax	1,413	968	46
Profit after tax	1,181	1,030	15
Capital expenditure	2,321	2,613	(11)
Adjusted measures			
Adjusted ¹ Revenue	10,414	10,368	—
Adjusted ¹ EBITDA	4,095	3,874	6
Pro forma ² Revenue	10,414	10,130	3
Pro forma ² EBITDA	4,095	3,945	4

Customer-facing unit updates

Half year to 30 September	Adjusted ¹ revenue			Adjusted ¹ EBITDA		
	2023	2022 Pro forma ² re-presented ²	Change	2023	2022 Pro forma ² re-presented ²	Change
	£m	£m	%	£m	£m	%
Consumer	4,903	4,754	3	1,347	1,296	4
Business	4,100	4,041	1	806	903	(11)
Openreach	3,053	2,836	8	1,936	1,735	12
Other	8	14	(43)	6	11	(45)
Intra-group items	(1,650)	(1,515)	(9)	—	—	—
Total	10,414	10,130	3	4,095	3,945	4

¹ See Glossary on page 2.

² See 'Prior period comparatives' section on page 2 for background on pro forma comparatives.

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 [12](#).

In addition, the group and operating review sections of this release present comparative financial information for the Consumer customer-facing unit and BT 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 [26](#) presents a bridge between financial information for the half year to 30 September 2022 as published on 16 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.
Capital expenditure	Additions to property, plant and equipment and intangible assets in the period.
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 12 for more details, and to Additional Information on page 26 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 26 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 page [26](#).

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 forma¹ basis reported revenue was up 3%.
- Reported operating costs were £8,828m, 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.
- Adjusted¹ EBITDA of £4,095m, up 6%, primarily driven by the reduction in operating costs.
 - on a Sports JV pro forma¹ basis adjusted¹ EBITDA was up 4%.
- Reported profit before tax of £1,413m, up 46%, largely due to factors driving adjusted¹ EBITDA growth and increased finance income on intra-group loan receivables, which reflects market conditions.

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 16.4% (H1 FY23: negative 6.4%). It was lower than the 25% corporation tax rate primarily due to the benefit derived from the UK patent box incentive and the inclusion of group relief for nil payment.
- 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 adjusted¹ profit was 17.6% (H1 FY23: 12.4%) 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 £2,321m¹, down 11%, with lower fixed network spend driven by lower FTTP build unit costs.
- Cash capital expenditure was also down 11% at £2,455m.

Cash flow

- Net cash inflow from operating activities was £2,324m, down 20% with increased operating profit offset by working capital movements.

Balance sheet

- The 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.

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.

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 10.

¹ See Glossary on page 2.

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 adjusted² EBITDA growth and strong operational performance

Half year to 30 September				
	2023	2022 re-presented ¹	Change	
	£m	£m	£m	%
Revenue ²	4,903	4,992	(89)	(2)
Operating costs ²	3,556	3,767	(211)	(6)
EBITDA ²	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)
Pro forma ³ adjusted revenue	4,903	4,754	149	3
Pro forma ³ adjusted EBITDA	1,347	1,296	51	4
Pro forma ³ capital expenditure	538	595	(57)	(10)

- Adjusted² revenue growth of 3% on a pro forma³ basis was driven by service revenue⁴ 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. Adjusted² revenue was down 2% due to the BT Sport disposal
- Adjusted² EBITDA growth of 4% on a pro forma³ basis with the growth in service revenue⁴ offset by higher input costs and prior year one-off items. Adjusted² EBITDA was up 10% due to adjusted¹ 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
- '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 2. See also note 1 to the condensed consolidated financial statements on page 12 for more details, and Additional Information on page 26 for a bridge to previously published results.

² Financials and commentary are based on adjusted measures; see Glossary on page 2.

³ See Sports JV pro forma definition in the Glossary on page 2, and Additional Information on page 26 for a bridge to previously published results.

⁴ See Glossary on page 2.

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

Half year to 30 September				
	2023	2022 re-presented ¹	Change	
	£m	£m	£m	%
Revenue ²	4,100	4,041	59	1
Operating costs ²	3,294	3,138	156	5
EBITDA ²	806	903	(97)	(11)
Depreciation & amortisation	490	536	(46)	(9)
Operating profit ²	316	367	(51)	(14)
Capital expenditure	361	448	(87)	(19)

- Adjusted² 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
- Adjusted² 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
- 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 2. See also note 1 to the condensed consolidated financial statements on page 12 for more details, and Additional Information on page 26 for a bridge to previously published results.

² Financials and commentary are based on adjusted measures; see Glossary on page 2.

Openreach: Adjusted² revenue and adjusted² EBITDA growth; Record quarter for FTTP build

Half year to 30 September				
	2023	2022 re-presented ¹	Change	
	£m	£m	£m	%
Revenue ²	3,053	2,836	217	8
Operating costs ²	1,117	1,101	16	1
EBITDA ²	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)

- Adjusted² 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
- Adjusted² 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
- 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 2. See also note 1 to the condensed consolidated financial statements on page 12 for more details, and Additional Information on page 26 for a bridge to previously published results.

² Financials and commentary are based on adjusted measures; see Glossary on page 2.

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	(8,673)	(155)	(8,828)
<i>Of which net impairment losses on trade receivables and contract assets¹</i>		(72)	—	(72)
Operating profit (loss)		1,741	(162)	1,579
Finance expense		(526)	(60)	(586)
Finance income		427	—	427
Net finance expense		(99)	(60)	(159)
Share of post tax profit (loss) of associates and joint ventures		(7)	—	(7)
Profit (loss) before tax		1,635	(222)	1,413
Taxation		(287)	55	(232)
Profit (loss) for the period		1,348	(167)	1,181

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	(8,826)	(309)	(9,135)
<i>Of which net impairment losses on trade receivables and contract assets¹</i>		(68)	—	(68)
Operating profit (loss)		1,542	(311)	1,231
Finance expense		(422)	4	(418)
Finance income		153	—	153
Net finance expense		(269)	4	(265)
Share of post tax profit (loss) of associates and joint ventures		2	—	2
Profit (loss) before tax		1,275	(307)	968
Taxation		(158)	220	62
Profit (loss) for the period		1,117	(87)	1,030

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

Group statement of comprehensive income

	Half year ended 30 September	
	2023	2022
	£m	£m
Profit for the period	1,181	1,030
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	2	1,316

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		13,578	13,695
Property, plant and equipment		22,075	21,667
Right-of-use assets		3,703	3,981
Derivative financial instruments		1,282	1,397
Investments ¹		10,992	10,945
Joint ventures and associates	10	335	359
Trade and other receivables		566	503
Preference shares in joint venture	10	535	542
Contract assets		330	369
Retirement benefit surplus		73	52
Deferred tax assets		1,083	709
		54,552	54,219
Current assets			
Inventories		404	349
Trade and other receivables		3,594	3,087
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		352	384
		9,851	9,476
Current liabilities			
Loans and other borrowings		2,075	1,772
Derivative financial instruments		50	86
Trade and other payables		6,117	6,508
Contract liabilities		882	859
Lease liabilities		807	800
Liabilities held for sale		2	4
Current tax liabilities		97	78
Provisions		226	229
		10,256	10,336
Total assets less current liabilities		54,147	53,359
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	894
Deferred tax liabilities		1,776	1,620
Provisions		337	369
		29,419	27,820
Equity			
Share capital		2,172	2,172
Share premium		8,000	8,000
Other reserves		1,636	1,664
Retained earnings		12,920	13,703
Total equity		24,728	25,539
		54,147	53,359

¹ £10,962m (31 March 2023: £10,916m) of the non-current investments relates to amounts owed by the parent company. Refer to note 11.

Group statement of changes in equity

	Share Capital	Share Premium	Other Reserves	Retained earnings	Total Equity
	£m	£m		£m	£m
At 1 April 2023	2,172	8,000	1,664	13,703	25,539
Profit for the period	—	—	—	1,181	1,181
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)	51	2
Dividends to shareholders	—	—	—	(850)	(850)
Share-based payments	—	—	—	36	36
Net buyback of own shares	—	—	—	—	—
Transfer to realised profit	—	—	20	(20)	—
Other movements	—	—	1	—	1
At 30 September 2023	2,172	8,000	1,636	12,920	24,728
At 31 March 2022	2,172	8,000	1,326	14,353	25,851
Change in accounting policy	—	—	—	(12)	(12)
At 1 April 2022	2,172	8,000	1,326	14,341	25,839
Profit for the period	—	—	—	1,030	1,030
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	176	1,316
Dividends to shareholders	—	—	—	(850)	(850)
Share-based payments	—	—	—	41	41
Net buyback of own shares	—	—	—	—	—
At 30 September 2022	2,172	8,000	2,466	13,708	26,346

Group cash flow statement

	Half year ended 30 September	
	2023	2022
	£m	£m
Cash flow from operating activities		
Profit before taxation	1,413	968
Share of post tax (profit) loss of associates and joint ventures	7	(2)
Net finance expense	159	265
Operating profit	1,579	1,231
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	(690)	(393)
Decrease (increase) in contract assets	124	37
(Decrease) increase in trade and other payables	(263)	124
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	2,947
Income taxes paid	(26)	(33)
Net cash inflow from operating activities	2,324	2,914
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
Net outflow on non-current amounts owed by ultimate parent company	(550)	(664)
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	(2,861)	(3,476)
Cash flow from financing activities		
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)	—
Net cash outflow from financing activities	489	242
Net decrease in cash and cash equivalents	(48)	(320)
Opening cash and cash equivalents ⁴	373	687
Net decrease in cash and cash equivalents	(48)	(320)
Effect of exchange rate changes	(3)	19
Closing cash and cash equivalents⁵	322	386

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 £30m (FY23: £20m).

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 British Telecommunications 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 [25](#). 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 £405m at 30 September 2023 (£860m 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 £322m (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 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 [26](#) presents a bridge between FY23 comparatives presented in the *Results for the half year to 30 September 2023* (published on 16 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)
Adjusted¹ external revenue	4,879	4,064	1,463	8	10,414
Adjusted EBITDA ²	1,347	806	1,936	6	4,095
Depreciation and amortisation ¹	(840)	(490)	(992)	(32)	(2,354)
Adjusted¹ operating profit (loss)	507	316	944	(26)	1,741
Specific operating profit (loss) (note 5)					(162)
Operating profit					1,579

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)
Adjusted¹ external revenue	4,962	3,999	1,393	14	10,368
Adjusted EBITDA ²	1,225	903	1,735	11	3,874
Depreciation and amortisation ¹	(804)	(536)	(940)	(52)	(2,332)
Adjusted¹ operating profit (loss)	421	367	795	(41)	1,542
Specific operating profit (loss) (note 5)					(311)
Operating profit					1,231

¹ Before specific items, see Glossary on page 2.

² Adjusted EBITDA is defined in the Glossary on page 2. For the reconciliation of adjusted EBITDA, see Additional Information on page 26.

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 12, and for a bridge to prior period published financial information see Additional Information on page 27.

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 adjusted¹ 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 adjusted¹ revenue	4,962	3,999	1,393	14	10,368
Specific items (note 5)					(2)
Total revenue					10,366

¹ See Glossary on page 2.

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 2. 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	1,935	1,920
Social security costs	210	213
Other pension costs	296	303
Share-based payment expense	37	41
Total staff costs	2,478	2,477
Own work capitalised	(645)	(641)
Net staff costs	1,833	1,836
Net indirect labour costs	210	188
Net labour costs	2,043	2,024
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	129	102
Other operating income	(117)	(112)
Depreciation and amortisation, including impairment charges	2,354	2,332
Total operating costs before specific items	8,673	8,826
Specific items (note 5)	155	309
Total operating costs	8,828	9,135

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 10 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 10 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 tax¹	(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 £6,117m 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 10 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. Financial commitments

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

9. 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.

10. 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 or 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.

11. Related party transactions

British Telecommunications plc and certain of its subsidiaries act as a funder and deposit taker for cash-related transactions for both its parent (BT Group Investments Ltd) and ultimate parent company (BT Group plc). The loan arrangements described below with these companies reflect this. Cash transactions normally arise where the parent and ultimate parent company are required to meet their external payment obligations or receive amounts from third parties. These principally relate to the payment of dividends, the buyback of shares and the exercise of share options. Transactions between the ultimate parent company, the parent company and the group are settled on both a cash and non-cash basis through these loan accounts depending on the nature of the transaction.

In FY02 the group demerged its former mobile phone business and as a result BT Group plc became the listed ultimate parent company of the group. The demerger steps resulted in the formation of an intermediary holding company, BT Group Investments Ltd, between BT Group plc and British Telecommunications plc. This intermediary company held an investment of £18.5bn in British Telecommunications plc which was funded by an intercompany loan facility with British Telecommunications plc.

A dividend of £850m was declared and settled with the parent company (FY22: nil).

A summary of the balances with the parent and ultimate parent companies and the finance income or expense arising in respect of these balances is shown below:

	Asset (liability)		Finance income (expense)	
	30 September 2023	31 March 2023	30 September 2023	30 September 2022
	£m	£m	£m	£m
Amounts owed by (to) parent and ultimate parent company				
Loan facility – non-current asset investments	10,962	10,916	325	139
Trade and other receivables	42	26	n/a	n/a
Trade and other payables	(25)	(11)	n/a	n/a

Associates and joint ventures related parties include the Sports JV formed in August 2022 (see note 10). 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.

12. 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 17 to 24 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

Simon Lowth

Director

10 November 2023

INDEPENDENT REVIEW REPORT TO BRITISH TELECOMMUNICATIONS PLC

Conclusion

We have been engaged by British Telecommunications 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 for 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

10 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 of BT Group plc 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 and reported net finance expense are the equivalent unadjusted or statutory measures. Reconciliations of reported to adjusted revenue, operating costs, operating profit and profit before tax are set out in the group income statement. Reconciliations of adjusted earnings before interest, tax and depreciation and amortisation 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	1,181	1,030
Tax	232	(62)
Reported profit before tax	1,413	968
Net finance expense	159	265
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)
Adjusted¹ EBITDA	4,095	3,874

¹ See Glossary on page 2.

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 12) 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	11	—	11
Total Group	3,874	—	3,874
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	3	—	3
Intra-group items	(1,530)	15	(1,515)
Total Group	6,494	—	6,494
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	(41)	—	(41)
Total Group	1,542	—	1,542

Half year to 30 September 2022	Reported basis	Re-representation 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
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

Sports JV pro forma basis

On 3 September 2022 BT 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 6 of this results release, when discussing the performance of BT 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 7 to 11) 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
Group			
Adjusted ² revenue	10,368	(238)	10,130
Adjusted ² EBITDA	3,874	71	3,945
Consumer			
Adjusted ² revenue	4,992	(238)	4,754
Adjusted ² EBITDA	1,225	71	1,296
Capital expenditure	596	(1)	595

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 2.

² See Glossary on page 2.

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.