

Results for the half year to 30 September 2019

1 November 2019

About BT

British Telecommunications plc (BT or group) 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.

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

Simon Lowth, Neil Harris and Ulrica Fearn served as directors throughout the period.

Half year to 30 September 2019	2019 (IFRS 16)	2018 (IAS 17)	2018 (IFRS 16 pro forma ²)	Change ¹
	£m	£m	£m	%
Reported measures				
Revenue	11,467	11,588		(1)
Profit before tax	1,451	1,454		n/m
Profit after tax	1,164	1,144		n/m
Capital Expenditure	1,882	1,833		3
Adjusted measures				
Adjusted ² Revenue	11,413	11,624	11,624	(2)
Adjusted ² EBITDA	3,925	3,676	4,039	(3)

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

Half year to 30 September	Adjusted ² revenue			Adjusted ² EBITDA		
	2019 (IFRS 16)	2018 ³ (IFRS 16 pro forma ²)	Change	2019 (IFRS 16)	2018 ³ (IFRS 16 pro forma ²)	Change
	£m	£m	%	£m	£m	%
Consumer	5,194	5,224	(1)	1,180	1,237	(5)
Enterprise	3,055	3,221	(5)	968	1,003	(3)
Global	2,196	2,332	(6)	304	255	19
Openreach	2,536	2,548	-	1,417	1,478	(4)
Other	-	2	n/m	56	66	(15)
Intra-group items	(1,568)	(1,703)	8	-	-	-
Total	11,413	11,624	(2)	3,925	4,039	(3)

¹ Changes on prior year are presented on an IAS 17 basis where meaningful except for adjusted EBITDA, which is presented on an IFRS 16 pro forma basis

² See Glossary below

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

n/m = not meaningful

Glossary of alternative performance measures

Adjusted	Before specific items
EBITDA	Earnings before interest, tax, depreciation and amortisation
Adjusted EBITDA	EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense
Capital expenditure	Additions to property, plant and equipment and intangible assets in the period
Specific items	Items that in management's judgement need to be disclosed separately by virtue of their size, nature or incidence. Further information is provided in note 6 on page 17
IFRS 16 pro forma	On 1 April 2019, BT adopted IFRS 16 <i>Leases</i> , which replaced IAS 17 <i>Leases</i> . To aid comparability, pro forma financial information for 2018/19 has been presented to reflect what the results would have looked like if the accounting standard had been adopted last year. See page 3 for more details.

We assess the performance of the group using a variety of alternative performance measures. The rationale for using adjusted measures is explained on page 25. Results on an adjusted basis are presented before specific items. Reconciliations from the most directly comparable IFRS measures are on page 25.

Group results for the half year to 30 September 2019

Revenue and EBITDA

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

Reported operating costs were £9,703m, down 2%, and adjusted¹ operating costs were down 1% mainly driven by savings from our ongoing transformation programmes, offset by increased spectrum licence fees and content costs, and investment to improve our competitive positioning. Adjusted¹ EBITDA of £3,925m was down 3%².

Reported profit before tax was £1,451m and adjusted¹ profit before tax was £1,563m, impacted by the higher upfront interest expense associated with IFRS 16 lease liabilities recognised on 1 April 2019.

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

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

Tax

The effective tax rate was 19.8% on reported profit and 19.9% on adjusted¹ profit, based on our current estimate of the full year effective tax rate.

Cash flow

Net cash inflow from operating activities was up £1,415m to £2,171m mainly driven by £751m lower contributions to the BT Pension Scheme in the current year and significant one-off cash flows.

Balance Sheet

At 30 September 2019 the group held cash and current investment balances of £4.3bn. The current portion of loans and other borrowings of £3.1bn include term debt of £0.3bn repayable during 2019/20. We issued bonds of £1.3bn in September 2019 and repaid bonds of £0.9bn maturing in June 2019.

Capital expenditure

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

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

Pension (Note 7 to the condensed consolidated financial statements)

The IAS 19 pension position at 30 September 2019 was a deficit of £5.1bn net of tax (£6.1bn gross of tax), compared with £6.0bn net of tax (£7.2bn gross of tax) at 31 March 2019. The decrease in the gross deficit of £1.1bn since 31 March 2019 mainly reflects deficit contributions paid over the period, with changes to financial assumptions used to value the liabilities broadly offsetting asset returns.

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

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

¹ See Glossary on page 1

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

Principal risks and uncertainties

A summary of the Group's principal risks and uncertainties is provided in note 12.

IFRS 16 pro forma restated historical financial information

On 1 April 2019 BT adopted IFRS 16 *Leases*, the new accounting standard for leases, recognising right-of-use assets and lease liabilities for arrangements that meet the IFRS 16 lease definition. EBITDA has increased because operating lease expense has been replaced by interest expense and depreciation. The standard was adopted on a modified retrospective basis, without restating comparative periods.

Unaudited pro forma results for BT Group plc for the year ended 31 March 2019 have been prepared and published, showing selected 2018/19 comparatives under IFRS 16. The impact of IFRS 16 on BT plc and BT Group plc is the same. These are available online:

<https://www.btplc.com/Sharesandperformance/Financialreportingandnews/Quarterlyresults/index.htm>

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

Operating review

Consumer

Half year to 30 September				
	2019 (IFRS 16)	2018 ³ (IFRS 16 pro forma except where noted ⁴)	Change	
	£m	£m	£m	%
Revenue ¹	5,194	5,224	(30)	(1)
Operating costs ¹	4,014	3,987	27	1
EBITDA ²	1,180	1,237	(57)	(5)
Depreciation & amortisation	631	515 ⁴	n/m	n/m
Operating profit ¹	549	608 ⁴	n/m	n/m
Capital expenditure	455	373	82	22

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

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

The movement in depreciation and amortisation was primarily due to the adoption of IFRS 16. Operating profit fell to £549m⁴.

Capital expenditure was up 22%, due to continued investment in the core broadband network along with spend on the 5G network.

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

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

² Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 1.

³ All prior year comparatives as reported in the Q2 2018/19 results release have been restated for the changes detailed on footnote 3 on page 1

⁴ Following BT's adoption of IFRS 16 on 1 April 2019, prior year comparatives have been re-presented where possible to reflect what the results would have looked like if the accounting standard had been adopted last year (see press release 3 July 2019). Depreciation & amortisation and operating profit have not been re-presented and are shown under IAS 17 (n/m = not meaningful)

Enterprise

Half year to 30 September				
	2019 (IFRS 16)	2018 ³ (IFRS 16 pro forma except where noted ⁴)	Change	
	£m	£m	£m	%
Revenue ¹	3,055	3,221	(166)	(5)
Operating costs ¹	2,087	2,218	(131)	(6)
EBITDA ²	968	1,003	(35)	(3)
Depreciation & amortisation	355	333 ⁴	n/m	n/m
Operating profit ¹	613	608 ⁴	n/m	n/m
Capital expenditure	233	246	(13)	(5)

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

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

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

Capital expenditure decreased 5%. Depreciation and amortisation and operating profit movements primarily reflect the impact of IFRS 16⁴.

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

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

² Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 1.

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Global

Half year to 30 September				
	2019 (IFRS 16) £m	2018 ³ (IFRS 16 pro forma except where noted ⁴) £m	Change £m %	
Revenue ¹	2,196	2,332	(136)	(6)
Operating costs ¹	1,892	2,077	(185)	(9)
EBITDA ²	304	255	49	19
Depreciation & amortisation	247	190 ⁴	n/m	n/m
Operating profit ¹	57	(12) ⁴	n/m	n/m
Capital expenditure	96	99	(3)	(3)

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

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

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

Capital expenditure was down slightly due to lower project spend and timing of spend in the year.

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

² Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 1.

³ All prior year comparatives as reported in the Q2 2018/19 results release have been restated for the changes detailed on footnote 3 on page 1

⁴ Following BT's adoption of IFRS 16 on 1 April 2019, prior year comparatives have been re-presented where possible to reflect what the results would have looked like if the accounting standard had been adopted last year (see press release 3 July 2019). Depreciation & amortisation and operating profit have not been re-presented and are shown under IAS 17 (n/m = not meaningful)

Half year to 30 September				
	2019 (IFRS 16) £m	2018 ³ (IFRS 16 pro forma except where noted ⁴) £m	Change £m %	
Revenue ¹	2,536	2,548	(12)	-
Operating costs ¹	1,119	1,070	49	5
EBITDA ²	1,417	1,478	(61)	(4)
Depreciation & amortisation	838	664 ⁴	n/m	n/m
Operating profit ¹	579	721 ⁴	n/m	n/m
Capital expenditure	1,015	1,055	(40)	(4)

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

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

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

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

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

² Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense). See glossary on page 1.

³ All prior year comparatives as reported in the Q2 2018/19 results release have been restated for the changes detailed on footnote 3 on page 1

⁴ Following BT's adoption of IFRS 16 on 1 April 2019, prior year comparatives have been re-presented where possible to reflect what the results would have looked like if the accounting standard had been adopted last year (see press release 3 July 2019). Depreciation & amortisation and operating profit have not been re-presented and are shown under IAS 17 (n/m = not meaningful)

Financial statements

Group income statement

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

	Note	Before specific items (‘Adjusted’)	Specific items (note 6)	Total (Reported)
		£m	£m	£m
Revenue	3,4	11,413	54	11,467
Operating costs	5	(9,609)	(94)	(9,703)
Operating profit		1,804	(40)	1,764
Finance expense		(399)	(72)	(471)
Finance income		156	-	156
Net finance expense		(243)	(72)	(315)
Share of post tax profit of associates and joint ventures		2	-	2
Profit before tax		1,563	(112)	1,451
Tax		(311)	24	(287)
Profit for the period		1,252	(88)	1,164

Group income statement

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

	Note	Before specific items (‘Adjusted’)	Specific items (note 6)	Total (Reported)
		£m	£m	£m
Revenue	3,4	11,624	(36)	11,588
Operating costs	5	(9,684)	(212)	(9,896)
Operating profit		1,940	(248)	1,692
Finance expense		(317)	(69)	(386)
Finance income		147	-	147
Net finance expense		(170)	(69)	(239)
Share of post tax profit of associates and joint ventures		1	-	1
Profit before tax		1,771	(317)	1,454
Tax		(362)	52	(310)
Profit for the period		1,409	(265)	1,144

Group statement of comprehensive income

	Half year to 30 September	
	2019 (IFRS 16) £m	2018 (IAS 17) £m
Profit for the period	1,164	1,144
Other comprehensive income (loss)		
Items that will not be reclassified to the income statement:		
Remeasurements of the net pension obligation	(83)	(292)
Tax on pension remeasurements	14	58
Items that have been or may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	88	74
Fair value movements on available-for-sale assets	(12)	5
Fair value movements on cash flow hedges:		
- net fair value (losses) gains ¹	659	461
- recognised in income and expense ¹	(381)	(286)
Transfer to cost of hedging reserve on adoption of IFRS 9 ¹	-	(81)
Tax on components of other comprehensive income that have been or may be reclassified	(50)	(30)
Other comprehensive profit (loss) for the period, net of tax	235	(91)
Total comprehensive income for the period	1,399	1,053

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

Group balance sheet

	30 September 2019 (IFRS 16)	31 March 2019 (IAS 17)
	£m	£m
Non-current assets		
Intangible assets	14,157	14,393
Property, plant and equipment	18,129	17,835
Right-of-use assets ¹	4,942	-
Derivative financial instruments	2,092	1,481
Investments	13,857	13,519
Associates and joint ventures	52	47
Trade and other receivables	409	445
Contract assets	260	249
Deferred tax assets	1,134	1,347
	55,032	49,316
Current assets		
Programme rights	715	310
Inventories	315	369
Trade and other receivables	3,224	3,238
Contract assets	1,420	1,353
Assets held for sale	-	89
Current tax receivable	164	110
Derivative financial instruments	124	111
Investments	3,863	3,486
Cash and cash equivalents	479	1,664
	10,304	10,730
Current liabilities		
Loans and other borrowings ²	3,074	3,140
Derivative financial instruments	61	48
Trade and other payables	5,771	5,827
Contract liabilities	1,244	1,225
Lease liabilities ¹	776	-
Current tax liabilities	-	15
Provisions	394	424
	11,320	10,679
Total assets less current liabilities	54,016	49,367
Non-current liabilities		
Loans and other borrowings	17,272	15,837
Derivative financial instruments	908	892
Contract liabilities	251	200
Lease liabilities ¹	5,336	-
Retirement benefit obligations	6,091	7,182
Other payables	707	1,479
Deferred tax liabilities	1,452	1,407
Provisions	424	582
	32,441	27,579
Equity		
Share capital	2,172	2,172
Share premium	8,000	8,000
Other reserves	1,728	1,425
Retained earnings	9,675	10,191
Total equity	21,575	21,788
	54,016	49,367

1 Right-of-use assets and lease liabilities arise following the adoption of IFRS 16 on 1 April 2019. See note 1 to the condensed consolidated financial statements.

2 Bank overdrafts of £78m at 30 September 2019 (31 March 2019: £72m) are included within loans and other borrowings

Group statement of changes in equity

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

	Note	Share Capital	Share Premium	Other Reserves	Retained Earnings	Total Equity
		£m	£m	£m	£m	£m
At 31 March 2019		2,172	8,000	1,425	10,191	21,788
IFRS opening balance adjustment ¹		-	-	-	(87)	(87)
Tax on IFRS opening balance adjustment ¹		-	-	-	16	16
At 1 April 2019		2,172	8,000	1,425	10,120	21,717
Profit for the period		-	-	-	1,164	1,164
Other comprehensive income (loss) before tax		-	-	734	(83)	651
Movements on cost of hedging reserve		-	-	-	-	-
Tax on other comprehensive (loss) income		-	-	(50)	14	(36)
Transferred to the income statement		-	-	(381)	-	(381)
Comprehensive income		-	-	303	1,095	1,398
Dividends	11	-	-	-	(1,575)	(1,575)
Share-based payments		-	-	-	33	33
Other movements		-	-	-	2	2
At 30 September 2019		2,172	8,000	1,728	9,675	21,575

¹ This reflects the opening balance sheet adjustment for adoption of IFRS 16 on 1 April 2019. See notes 1 and 2 to the condensed consolidated financial statements

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

At 1 April 2018	2,172	8,000	1,241	11,994	23,407
Profit for the period	-	-	-	1,144	1,144
Other comprehensive loss before tax	-	-	459	(292)	167
Tax on other comprehensive (loss) income			(30)	58	28
Transferred to the income statement	-	-	(286)	-	(286)
Comprehensive income	-	-	143	910	1,053
Dividends			-	(2,500)	(2,500)
Share-based payments	-	-	-	36	36
Unclaimed dividends over 10 years			-	5	5
Other movements	-	-	-	(2)	(2)
At 30 September 2018	2,172	8,000	1,384	10,443	21,999

Group cash flow statement

	Half year to 30 September	
	2019 (IFRS 16) £m	2018 (IAS 17) £m
Cash flow from operating activities		
Profit before taxation	1,451	1,454
Share of post tax loss (profit) of associates and joint ventures	(2)	(1)
Net finance expense	315	239
Operating profit	1,764	1,692
Other non-cash charges	115	9
Interest on lease liabilities ¹	(70)	-
Loss on disposal of business	67	-
Profit on disposal of property, plant and equipment	(115)	-
Depreciation and amortisation	2,121	1,736
(Increase) decrease in inventories	53	(65)
(Increase) decrease in programme rights	31	60
(Increase) decrease in trade and other receivables	(25)	(268)
(Increase) decrease in contract assets	(75)	54
(Decrease) increase in trade and other payables	(545)	(208)
(Decrease) increase in contract liabilities	104	(29)
Decrease in other liabilities ²	(1,173)	(1,972)
(Decrease) increase in provisions	2	(43)
Cash generated from operations	2,254	966
Income taxes paid	(83)	(210)
Net cash inflow (outflow) from operating activities	2,171	756
Cash flow from investing activities		
Interest received	16	8
Dividends received from associates and joint ventures	(1)	-
Net outflow on non current amounts owned by ultimate parent company ⁵	(1,149)	(1,052)
Proceeds on disposal of subsidiaries, associates and joint ventures	7	-
Acquisition of joint ventures	(4)	(6)
Proceeds on disposal of current financial assets	6,216	6,395
Purchases of current financial assets	(6,717)	(6,721)
Proceeds on disposal of property, plant and equipment	214	3
Purchases of property, plant and equipment and software	(2,067)	(1,739)
Net cash inflow (outflow) from investing activities	(3,485)	(3,112)
Cash flow from financing activities		
Interest paid	(300)	(236)
Repayment of borrowings ³	(811)	(480)
Proceeds from bank loans and bonds	1,257	2,896
Payment of lease liabilities ¹	(311)	-
Net movement on commercial paper	277	-
Cash flows from derivatives related to net debt	-	59
Net cash inflow (outflow) from financing activities	112	2,239
Net increase (decrease) in cash and cash equivalents	(1,202)	(117)
Opening cash and cash equivalents	1,592	492
Net (decrease) increase in cash and cash equivalents	(1,202)	(117)
Effect of exchange rate changes	11	7
Closing cash and cash equivalents⁴	401	382

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

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

3 Repayment of borrowings includes the impact of hedging

4 Net of bank overdrafts of £78m at 30 September 2019 (30 September 2018: £39m; 31 March 2019: £72m)

5 There are non-cash movements in this intra-group loan arrangement which principally relate to the settlement of dividends with the parent company and amounts the ultimate parent company was owed by the parent company which were settled through their loan accounts with British Telecommunications plc

Notes to the condensed consolidated financial statements

1. Basis of preparation and accounting policies

These condensed consolidated financial statements ('the financial statements') comprise the financial results of British Telecommunications plc for the half years to 30 September 2019 and 30 September 2018 together with the balance sheet at 31 March 2019. The financial statements for the half year to 30 September 2019 have been reviewed by the auditors and their review opinion is on page 24. The financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook (DTR) of the Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* as adopted by the European Union. The financial statements should be read in conjunction with the Annual Report 2019 which was prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In preparing the group financial statements, the directors have also elected to comply with IFRS, issued by the International Accounting Standards Board (IASB).

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

Except for the impact of IFRS 16 as described below and other than income taxes which are accrued using the tax rate that is expected to be applicable for the full financial year, the financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2019 and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

The comparative figures for the financial year ended 31 March 2019 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

New and amended accounting standards effective during the year

IFRS 16 *Leases* is effective for BT Group from 1 April 2019.

Background

IFRS 16 replaces IAS 17 'Leases' and related interpretations. The standard requires lessees to recognise right-of-use assets and lease liabilities for all leases meeting the lease definition set out by the standard unless certain exemptions are available. Accounting for lessors is largely unchanged.

Arrangements previously disclosed as operating lease commitments at 31 March 2019 have been recognised on the balance sheet. The key driver is the group's portfolio of leased land and buildings, the majority of which were previously recognised off balance sheet following a sale and operating leaseback transaction in 2001. Cell and switch site leases represent another material element, due to the long lease terms associated with these arrangements. Lease liabilities have also been recognised in respect of certain arrangements that were previously accounted for as service contracts because they did not meet the IAS 17 lease definition. These predominantly relate to dark fibre and data centre capacity.

Transition

The group adopted IFRS 16 on a modified retrospective basis. On transition, lease liabilities were recognised by discounting remaining payments payable under lease arrangements using an appropriate incremental borrowing rate. Right-of-use assets were recognised equivalent to the corresponding lease liabilities, adjusted for pre-existing prepaid lease payments, accrued lease expenses, and related onerous lease and decommissioning provisions.

The cumulative effect of initially applying the standard has been recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, i.e. the date of initial application. Prior year comparatives have not been restated for the effect of IFRS 16 and continue to be reported under IAS 17.

Practical expedients and exemptions

The group has elected to make use of the following practical expedients and exemptions available under IFRS 16:

- where appropriate, onerous lease provisions in existence at the date of initial adoption have been derecognised and applied against the corresponding right-of-use assets as a proxy for impairment
- initial direct costs have been excluded when measuring the right-of-use assets recognised on initial adoption of the standard
- hindsight has been used in assessing the lease term on initial adoption of the standard
- low-value leases and short-term leases have been excluded from the IFRS 16 accounting model, i.e. they will be accounted for in the same manner as operating leases previously were under IAS 17
- intangible assets such as software licences continue to be accounted for under IAS 38 'Intangible Assets', regardless of whether the arrangement would otherwise meet the IFRS 16 lease definition
- where practicable, and by class of underlying asset, arrangements containing both lease components and non-lease components will be accounted for as though they comprise a single lease component.

Financial impact

BT as lessee

In the prior year Annual Report, we estimated that bringing operating lease commitments onto the balance sheet on transition at 1 April 2019 would result in recognition of lease liabilities of between £5.6bn and £6.6bn. The actual liabilities recognised were £6.1bn (£6.3bn including pre-existing finance leases). When measuring these liabilities, lease payments were discounted using the group's incremental borrowing rate. The weighted-average rate applied was 2.2%.

The corresponding right-of-use assets recognised were £5.2bn. The difference to lease liabilities predominantly relates to accruals for rent inflation associated with operating leases which were previously classified as trade and other payables, but which have been reclassified to the corresponding right-of-use assets on transition to IFRS 16.

The reconciliation of operating lease commitments disclosed at 31 March 2019 to lease liabilities recognised at 1 April 2019 is as follows:

	£m
Operating lease commitments disclosed as at 31 March 2019¹	6,619
Arrangements not considered to be a lease under IAS 17 & IFRIC 4	74
Adjustments as a result of different treatment of extension & termination options	437
Short-term & low value leases recognised as an expense on a straight-line basis	(8)
Effect of discounting under the group's incremental borrowing rate	(901)
Other ²	(158)
Additional lease liabilities recognised as a result of IFRS 16	6,063
Reclassification of existing finance leases	206
Total lease liabilities recognised as at 1 April 2019	6,269

¹ BT plc Annual Report 2019, note 29 (page 123)

² Other primarily represents leases between BT Group plc and MBNL, of which BT share's is eliminated for consolidation purposes, but which had been shown gross in operating lease commitments disclosed as at 31 March 2019

BT as lessor

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

Under IFRS 16 these fees are now deferred over the lease term. For last mile arrangements, this is longer than the current contractual deferral period as it also covers the duration that we are 'reasonably certain' that communications providers will retain the use of the line beyond the initial contractual period. This has been assessed as 6 months for all last mile arrangements except for FTTP, which is 12 months. Additional deferred income has been recognised in respect of active arrangements at the transition date, and a corresponding adjustment has been made to retained earnings. This has not had a material impact on the balance sheet or income statement. For Ethernet arrangements, the difference between the contractual term and the lease term has not had a material impact on the accounting for connection fees.

Note 2 sets out the adjustments to the opening balance sheet resulting from initial application of IFRS 16.

Disclosures

We have presented right-of-use assets and the current and non-current elements of lease liabilities on the face of the consolidated balance sheet. To support the additional disclosure requirements introduced by IFRS 16, the financial statements for the year ended 31 March 2020 will include a dedicated leasing note.

The cash flow statement has been revised to present the element of cash lease payments attributable to lease interest expense within cash flows from operating activities, and the element attributable to repayment of lease liabilities within cash flows from financing activities.

There are no other new or amended standards or interpretations adopted during the year that have a significant impact on the group.

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

We do not expect any other standards or interpretations that have been issued and are not yet effective to have a significant impact on the group.

2. Restatement of prior period financial statements and opening balance adjustments

Revision of segment results

From 1 October 2018 we combined our Business and Public Sector and Wholesale and Ventures customer-facing units into a single customer-facing unit, Enterprise. At the same time we transferred our Northern Ireland Networks business (now 'Openreach Northern Ireland') from Business and Public Sector to Openreach, and reclassified certain internal revenues generated by our Ventures businesses within Enterprise as segmental revenue rather than internal recovery of cost.

From 1 April 2019 we changed the allocation of group overhead costs and transferred the Emergency Services Network contract from Consumer to Enterprise.

The comparative results in the segment information note have been revised to be presented on a consistent basis. See note 3.

IFRS 16 opening balance adjustments

The transition method we have chosen in applying IFRS 16 means we do not restate comparative information for the impact of the standard. We have instead adjusted the 1 April 2019 balance sheet to reflect the impact on opening retained earnings. Set out below is the impact on the balance sheet and statement of changes in equity of the transition to IFRS 16.

Group balance sheet

	At 31 March 2019	IFRS 16 opening balance adjustment	At 1 April 2019
	£m	£m	£m
Non-current assets			
Right-of-use assets	-	5,155	5,155
Intangible assets	14,393	(70)	14,323
Property, plant and equipment	17,835	(34)	17,801
Deferred tax assets	1,347	2	1,349
Other non-current assets	15,741	-	15,741
	49,316	5,053	54,369
Current assets			
Trade and other receivables	3,238	(50)	3,188
Other current assets	7,492	-	7,492
	10,730	(50)	10,680
Current liabilities			
Lease liabilities	-	725	725
Loans and other borrowings	3,140	(16)	3,124
Trade and other payables	5,827	91	5,918
Contract liabilities	1,225	(34)	1,191
Provisions	424	(17)	407
Other current liabilities	63	-	63
	10,679	749	11,428
Total assets less current liabilities	49,367	4,254	53,621
Non-current liabilities			
Lease liabilities	-	5,544	5,544
Loans and other borrowings	15,837	(190)	15,647
Contract liabilities	200	(12)	188
Other payables	1,479	(825)	654
Provisions	582	(192)	390
Other non-current liabilities	9,481	-	9,481
	27,579	4,325	31,904
Equity			
Retained earnings	10,191	(71)	10,120
All other reserves	11,597	-	11,597
Total equity	21,788	(71)	21,717
	49,367	4,254	53,621

Group statement of changes in equity

	Share Capital	Share Premium	Other Reserves	Retained Earnings	Total Equity
	£m	£m	£m	£m	£m
At 31 March 2019	2,172	8,000	1,425	10,191	21,788
IFRS opening balance adjustment ¹	-	-	-	(87)	(87)
Tax on IFRS opening balance adjustment	-	-	-	16	16
At 1 April 2019	2,172	8,000	1,425	10,120	21,717

¹ This reflects the opening balance sheet adjustment for adoption of IFRS 16 on 1 April 2019. See notes 1 and 2 to the condensed consolidated financial statements

3. Operating results – by customer facing unit

	External Revenue	Internal revenue	Group revenue	Adjusted EBITDA ¹	Operating profit
Half year to 30 September 2019	£m	£m	£m	£m	£m
Consumer	5,144	50	5,194	1,180	549
Enterprise	2,909	146	3,055	968	613
Global	2,196	-	2,196	304	57
Openreach	1,164	1,372	2,536	1,417	579
Other	-	-	-	56	6
Intra-group items	-	(1,568)	(1,568)	-	-
Total adjusted³	11,413	-	11,413	3,925	1,804
Specific items (note 6)			54		(40)
Total			11,467		1,764

Half year to 30 September 2018 (restated) ²					
Consumer	5,172	52	5,224	1,123	608
Enterprise	3,033	188	3,221	941	608
Global	2,332	-	2,332	178	(12)
Openreach	1,085	1,463	2,548	1,385	721
Other	2	-	2	49	15
Intra-group items	-	(1,703)	(1,703)	-	-
Total adjusted³	11,624	-	11,624	3,676	1,940
Specific items (note 6)			(36)		(248)
Total			11,588		1,692

¹ For the reconciliation of adjusted EBITDA see additional information on page 25

² 2018 results have been restated to reflect the bringing together of our Business and Public Sector and Wholesale and Ventures customer-facing units into a single customer-facing unit, Enterprise, on 1 October 2018; the transfer of our Northern Ireland Networks business from Enterprise to Openreach and reclassification of certain internal revenues generated by our Ventures businesses as segmental revenue rather than internal recovery of cost; and the change in the allocation of group overhead costs and the transfer of the Emergency Services Network contract from Consumer to Enterprise

³ See Glossary on page 1

4. Operating result – by type of revenue

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

¹ See Glossary on page 1

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

¹ See Glossary on page 1

5. Operating costs

	Half year to 30 September	
	2019 (IFRS 16 ¹) £m	2018 (IAS 17) £m
Direct labour costs	2,636	2,663
Indirect labour costs	500	472
Leaver costs	8	8
Total labour costs	3,144	3,143
Capitalised labour	(751)	(729)
Net labour costs	2,393	2,414
Product costs and sales commissions ¹	2,154	2,172
Payments to telecommunications operators	927	1,073
Property and energy costs	493	661
Network operating and IT costs	440	508
Programme rights charges	437	403
Other operating costs ¹	644	717
Operating costs before depreciation, amortisation and specific items	7,488	7,948
Depreciation and amortisation	2,121	1,736
Total operating costs before specific items	9,609	9,684
Specific items (Note 6)	94	212
Total operating costs	9,703	9,896

¹ Other operating costs have been disaggregated and re-presented for the half year to 30 September 2019

6. Specific items

The group separately identifies and discloses those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence (termed 'specific items'). Specific items are used to derive the adjusted results as presented in the accompanying consolidated income statement. Adjusted results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reporting trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include acquisitions/disposals of businesses and investments, retrospective regulatory matters, historical insurance or litigation claims, business restructuring programmes, asset impairment charges, property rationalisation programmes, net interest on pensions and the settlement of multiple tax years. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items.

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

Restructuring charges

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

Retrospective regulatory matters

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

Property rationalisation

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

Provisions for claims

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

Loss on disposal of business

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

Interest expense on retirement benefit obligation

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

Tax on specific items

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

7. Pensions

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

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

8. Financial instruments and risk management

Fair value of financial assets and liabilities measured at amortised cost

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

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

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

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

Fair value estimation

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

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

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

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

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

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

9. Financial commitments

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

10. Contingent liabilities

Save for the updates provided below, there have been no material updates relating to the Legal Proceedings and Regulatory matters as disclosed in the Annual Report 2019.

Legal proceedings

Italian Business

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

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

Brazilian tax claims

The Brazilian state tax authorities have made tax demands on the exchange of goods and services (ICMS) and regulatory assessments (FUST/FUNTTEL) against certain Brazilian subsidiaries. These are indirect taxes imposed on the provision of telecommunications services in Brazil. The state tax and regulatory authorities are seeking to impose ICMS and FUST/FUNTTEL on revenue earned on activities that the company does not consider as being part of the provision of

telecommunications services, such as equipment rental and managed services. The judicial process is likely to take many years.

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

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

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

Phones 4U

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

Regulatory matters

Northern Ireland Public Sector Shared Network contract

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

Spectrum annual licence fees

Annual fees for 1800MHz spectrum increased from 31 January 2019 following Ofcom's final statement and introduction of new fees regulations in December 2018. Four mobile network operators including EE sought, through legal proceedings, repayment of overpaid fees that were charged during the period 2015-2017 under the previous 2015 fees regulation that was quashed by the Court of Appeal in 2017. On 17 May 2019, the Commercial Court handed down its judgment in the favour of the four mobile network operators and we received a payment of £87m on 21 May 2019. Ofcom has obtained permission to appeal the judgment to the Court of Appeal, and the hearing will take place in late January 2020. We have not recognised this receipt as income in the quarter pending our assessment of the likely outcome of the appeal. This amount is included within provisions in the 30 September 2019 balance sheet.

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 Limited) 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 2001/02 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 Limited, 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 £1,575m (2018: £2,500) was declared and settled with the parent company in relation to the year ended 31 March 2019 during the first half.

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	31 March	30 September	30 September
	2019	2019	2019	2018
	£m	£m	£m	£m
Amounts owed by (to) parent company				
Loan facility – non-current asset investments	10,648	10,436	104	105
Loan facility – current asset investments	103	211	n/a	n/a
Trade and other payables	-	(55)	n/a	n/a
Amounts owed by (to) ultimate parent company				
Non-current asset investments	3,167	3,029	32	30
Non-current liabilities loans	(1,083)	(1,061)	(20)	(22)
Trade and other receivables	2	16	n/a	n/a
Current asset investments	33	61	n/a	n/a
Current liabilities loans	(1,549)	(1,040)	-	-
Trade and other payables	(19)	(1)	n/a	n/a

12. Principal risks and uncertainties

We have processes for identifying, evaluating and managing our risks. Details of our principal risks and uncertainties can be found on pages 38 to 45 of the Annual Report 2019 and are summarised below. All of them have the potential to have an adverse impact on our business, revenue, profits, assets, liquidity and capital resources.

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

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm that to the best of our knowledge:

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

By order of the Board

Simon Lowth

Director

1 November 2019

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2019 which comprises the condensed consolidated income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and related explanatory notes.

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

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

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

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

1 November 2019

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 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.

Reconciliation of earnings before interest, tax, depreciation and amortisation

Earnings before interest, tax, depreciation and amortisation (EBITDA) is not a measure defined under IFRS, but is a key indicator used by management to assess operational performance. We consider EBITDA and adjusted EBITDA to be useful measures of our operating performance because they approximate the underlying operating cash flow by eliminating depreciation and amortisation. EBITDA and adjusted EBITDA are not direct measures of our liquidity, which is shown by our cash flow statement, and need to be considered in the context of our financial commitments. A reconciliation of reported profit before tax to adjusted EBITDA is provided below.

	Half year to 30 September	
	2019 (IFRS 16 ¹) £m	2018 (IAS 17 ¹) £m
Reported profit for the period	1,164	1,144
Tax	287	310
Reported profit before tax	1,451	1,454
Net interest related finance expense	243	163
Depreciation and amortisation	2,121	1,736
EBITDA	3,815	3,353
EBITDA specific items	40	248
Net other finance expense	72	76
Share of post tax losses (profits) of associates and joint ventures	(2)	(1)
Adjusted² EBITDA	3,925	3,676

¹ Following adoption of IFRS 16 on 1 April 2019, operating lease charges previously included within EBITDA and adjusted EBITDA have been replaced with depreciation on right-of-use assets and interest expense on lease liabilities. See note 1 to the condensed consolidated financial statements.

² See Glossary on page 1

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

Earnings before interest, tax, depreciation and amortisation (EBITDA) is not a measure defined under IFRS, but is a key indicator used by management to assess operational performance. A reconciliation of the trends in EBITDA is provided below.

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

¹ See Glossary on page 1

Forward-looking statements – caution advised

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

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

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

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