British Telecommunications Plc
Results for the half year to 30 September 2022

16 November 2022

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

BT consists of four customer-facing units: Consumer serves individuals and families in the UK; Enterprise and Global are our UK and international business-focused units respectively; Openreach is an independently governed, wholly owned subsidiary, which wholesales fixed access infrastructure services to its customers - over 650 communication providers across the UK.

The directors at 30 September 2022 were Simon Lowth, Neil Harris, Martin Smith, Edward Heaton and Daniel Rider, all of whom served as directors throughout the period.

Half year to 30 September	2022	2021	Change
Reported measures	**£m**	£m	%
Revenue	**10,366**	10,305	1
Profit before tax	**968**	1,072	(10)
Profit after tax	**1,030**	494	109
Capital expenditure	**2,613**	2,563	2
Adjusted measures			
Adjusted Revenue	**10,368**	10,308	1
Adjusted EBITDA	**3,874**	3,750	3
Capital expenditure excluding spectrum	**2,613**	2,067	26

Customer-facing unit updates

	Adjusted revenue			Adjusted EBITDA		
Half year to 30 September	**2022 £m**	2021 £m	Change %	**2022 £m**	2021 £m	Change %
Consumer	**4,992**	4,857	3	**1,295**	1,077	20
Enterprise	**2,439**	2,572	(5)	**660**	852	(23)
Global	**1,617**	1,654	(2)	**197**	207	(5)
Openreach	**2,836**	2,707	5	**1,711**	1,561	10
Other	**14**	14	—	**11**	53	(79)
Intra-group items	**(1,530)**	(1,496)	(2)	**—**	—	—
Total	**10,368**	10,308	1	**3,874**	3,750	3

Glossary

Adjusted	Before specific items. Adjusted results are consistent with the way that financial performance is measured by management and assist in providing an additional analysis of the reporting trading results of the group.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Adjusted EBITDA	EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense.
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. In the current period these relate to the BT Sport disposal, 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 [25].

British Telecommunications plc

Group results for the half year to 30 September 2022

Income statement

- Reported revenue was £10,366m, up 1%, driven by growth in Consumer and Openreach, partially offset by declines in Enterprise and Global; growth was primarily due to inflation-related price increases in Consumer and Openreach, increased sales of fibre-enabled products and Ethernet and positive forex movements, partially offset by legacy base decline, the loss of an MVNO customer, impact of the BT Sport disposal and lower kit sales
- Reported operating costs were £9,135m, up 3%, primarily due to increased energy costs and cost inflation, increased depreciation from network build and higher specific costs, partially offset by the impact of the BT Sports disposal, some one off items, our ongoing modernisation programmes and tight cost management
- Adjusted[1] EBITDA of £3,874m, up 3%, primarily due to revenue growth, reduced costs from our ongoing modernisation programmes and tight cost management and some one-off items, partially offset by increased energy costs and cost inflation
- Reported profit before tax of £968m, down 10%, primarily due to increased depreciation from network build and higher specific costs

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

- Specific items resulted in a net charge after tax of £87m (H1 FY22: £583m)
- The main components were restructuring charges of £122m (H1 FY22: £135m) and net charges associated with the disposal of BT Sport of £188m, offset by tax credit on specific items of £220m (H1 FY22: charge of £395m)
- The net profit on disposal of BT Sport recognised in specific items was £3m, representing the £188m charges and £191m of the tax credit

Tax

- The effective tax rate on reported profit was negative 6.4% (H1 FY22: positive 53.9%) reflecting a tax credit recorded against an accounting profit, primarily driven by the impact of the super deduction and the fact that the gain on disposal of BT Sport is exempt from UK tax
- The rate was higher in the prior year due to a one-off tax charge arising on remeasurement of deferred tax balances following the enactment of the revised 25% corporate tax rate
- The effective tax rate on adjusted[1] profit was 12.4% (H1 FY22: 14.5%) as we expect a larger proportion of our capital spend on fibre roll out to qualify for the Government's super deduction scheme this year, which continues to allow for enhanced tax relief for qualifying capital expenditure in FY23; these enhanced deductions continue to drive a taxable loss in the year with around £6bn of tax losses expected to be carried forward from FY23
- A net UK deferred tax charge has been recorded, reflecting the deferred tax liability arising on qualifying capital expenditure, offset in part by a deferred tax asset on the current period tax loss

Capital expenditure

- Reported capital expenditure was £2,613m, up 2% , mainly driven by increased Openreach investments in fixed network build and connections

Cash flow

- Net cash inflow from operating activities was £2,914m, up 22%, mainly as a result of working capital movements

Balance sheet

- The group holds cash and current investment balances of £3.3bn; the current portion of loans and other borrowings is £1.4bn
- We have no term debt maturities in FY23
- Our £2.1bn revolving credit facility, which matures in March 2027, remains undrawn at 30 September 2022

Pensions (Note 7 to the condensed consolidated financial statements)

- Gross IAS 19 deficit was £1.7bn (31 March 2022: £1.1bn); deficit net of deferred tax was £1.4bn (31 March 2022: £1.0bn)
    - Increase in the gross deficit of £0.6bn mainly due to the impact of higher real gilt yields partly offset by deficit contributions

[1] See Glossary on page 1

Operating review

Measures discussed in the operating review are on an adjusted basis.

Consumer: Continued strong financial performance; completion of joint venture with Warner Bros. Discovery Inc. in September

	Half year to 30 September			
	2022	2021	Change	
	£m	£m	£m	%
Revenue[1]	**4,992**	4,857	135	3
Operating costs[1]	**3,697**	3,780	(83)	(2)
EBITDA[1]	**1,295**	1,077	218	20
Depreciation & amortisation	**701**	701	—	—
Operating profit[1]	**594**	376	218	58
Capital expenditure	**583**	518	65	13

- Revenue growth with improved fixed and mobile service revenues, helped by the annual contractual price rise and higher roaming revenues partially offset by the exclusion of one month of Sport revenue due to the impact of the BT Sport disposal
- EBITDA and operating profit growth was driven by higher revenue, tight cost management including lower indirect mobile commissions and also benefited from a number of one-off items
- Capital expenditure was up due to digital and network investment
- Annual contractual price rises (CPI +3.9%) support the continued investment in our industry leading network providing customers the best and most reliable connection ever; we continue to support nearly 1 million vulnerable customers on a range of subsidised or discounted tariffs including Home Essentials, which was introduced to follow on from the previous service, BT Basic
- NPS of BT brands have moved broadly in line with competitors, with EE again having the equal lowest complaint rate for mobile and both EE and BT maintaining complaint rates below industry average for landline and broadband; churn remains low despite cost of living challenges
- Highest ever quarterly growth in FTTP base with increase of 121k in Q2; FTTP base now 1.4m, 5G ready base now 8.2m
- In September, BT Group and Warner Bros. Discovery, Inc. completed their transaction to form a 50:50 JV that combines the assets of BT Sport and Eurosport UK
- Launched EE Security, powered by Verisure and Norton, highlighting EE's commitment to introduce new products and services to evolve its offering to Consumer customers; EE also launched a new gaming offering in a drive to become the UK's number one network for gaming
- EE are the first network globally to exclusively offer ‘Apple One’, a bundle of four Apple services: Music, TV+, Arcade and iCloud+ and in August we simplified our mobile plans, enhanced our smart benefits and with ‘Stay Connected Data’ we’re giving customers more reasons to count on us

[1] Financials and commentary are based on adjusted measures; see Glossary on page 1

Enterprise: Major corporate legacy declines and migration of MVNO customer last year offsetting growth in SME and SoHo

	Half year to 30 September			
	2022	2021	Change	
	£m	£m	£m	%
Revenue[1]	**2,439**	2,572	(133)	(5)
Operating costs[1]	**1,779**	1,720	59	3
EBITDA[1]	**660**	852	(192)	(23)
Depreciation & amortisation	**437**	356	81	23
Operating profit[1]	**223**	496	(273)	(55)
Capital expenditure	**311**	254	57	22

- Revenue decline was driven by legacy product declines and the migration of an MVNO customer, partially offset by growth in SME and SoHo
- EBITDA decline was driven by lower revenue, with the mix of revenue driving further downside
- The overall revenue and EBITDA trend improved during H1, reflecting continued growth in both the SME and SoHo segments and timing of contract revenue recognition within Wholesale
- Operating profit decline reflected the decline in EBITDA and higher depreciation from timing of asset recognition
- Capital expenditure was up due to increased investment in product development as well as in our modernisation programme
- Despite the challenging market conditions, we have seen steady growth in both mobile and Voice over IP (VoIP) in the half year, adding 86k connections to our mobile base and 39k connections to our VoIP base
- Retail order intake was £2.7bn on a 12-month rolling basis, up 1% with growth in new business offset by decline in contract re-signs; wholesale order intake was £0.8bn, down 14%
- Enterprise NPS has improved, driven by better results in SoHo, SME and Wholesale segments

- During the half year BT signed a contract with ScottishPower to strengthen the connectivity throughout their network of wind farms and offices
- We continue to build out our distribution network in SoHo; following the partnerships announced earlier this year, which includes Barclaycard Payments, we have added Checkatrade and Just Eat to our network
- We supported the broadcast coverage of the Birmingham 2022 Commonwealth Games, using a 5G private network, the first time the cutting-edge technology has been deployed in Europe for an event on this scale

[1] Financials and commentary are based on adjusted measures; see Glossary on page 1

Global: Improved growth portfolio performance and strong cost transformation offset by lower year on year equipment sales and inflationary pressures stabilises revenue and EBITDA

	Half year to 30 September			
	2022	2021	Change	
	£m	£m	£m	%
Revenue[1]	**1,617**	1,654	(37)	(2)
Operating costs[1]	**1,420**	1,447	(27)	(2)
EBITDA[1]	**197**	207	(10)	(5)
Depreciation & amortisation	**155**	185	(30)	(16)
Operating profit[1]	**42**	22	20	91
Capital expenditure	**125**	86	39	45

- Revenue decline mainly due to lower year on year strategic equipment sales and the impact of prior year divestments, partly offset by a £58m positive foreign exchange movement; revenue excluding divestments, one-offs and foreign exchange was down 5%
- EBITDA decline reflected lower revenues and inflationary pressures, partly offset by lower operating costs from ongoing modernisation, cost control and one-offs; EBITDA excluding divestments, one-offs and foreign exchange was down 6%
- Depreciation and amortisation was down mainly due to actions taken to reduce capital intensity over the last few years, resulting in growth in operating profit
- Capital expenditure was up mainly due to customer project spend and investment in digital platforms
- On a rolling 12-month basis order intake was £3.4bn, down 7% however the proportion of our growth product portfolio continues to increase, representing 57% of total orders won in the half year
- During the half year we signed a contract with QBE Insurance to connect their sites across 22 countries and to provide them with voice services globally including their contact centres in North America
- In October we launched a new circularity service to help BT's business customers return end-of-life network equipment to Cisco for responsible re-use or recycling, reducing the amount of e-waste

[1] Financials and commentary are based on adjusted measures; see Glossary on page 1

Openreach: Revenue and EBITDA growth; FTTP build and connections continue to accelerate

	Half year to 30 September			
	2022	2021	Change	
	£m	£m	£m	%
Revenue[1]	**2,836**	2,707	129	5
Operating costs[1]	**1,125**	1,146	(21)	(2)
EBITDA[1]	**1,711**	1,561	150	10
Depreciation & amortisation	**987**	892	95	11
Operating profit[1]	**724**	669	55	8
Capital expenditure	**1,490**	1,094	396	36
Normalised free cash flow[1]	**53**	8	45	n/m

n/m = not meaningful

- Revenue growth was driven by price increases and increased sales of fibre-enabled products and Ethernet, offset by decline in physical lines and decrease in chargeable repairs due to lower repair volumes; in FY22 price increases started in the second quarter
- EBITDA growth was due to revenue flow through and lower operating costs driven by lower repair and efficiency programmes, partially offset by higher FTTP provisioning activity and pay inflation
- Depreciation and amortisation was up, driven by increased network build
- Capital expenditure growth was driven by FTTP, with more customers connected and higher network build, including work in progress for future year FTTP enablement, and inflation, partially offset by lower non FTTP provisioning and efficiency savings; capital expenditure related to copper products was down 26% year on year
- Openreach broadband base down 89k in Q2 (Q2 FY22: net adds of 29k) due to reduced broadband market growth and c.40k impact on provisioning activity due to industrial action, with competitor churn in line with our expectations; average monthly rental ARPU grew by c.£1 year on year due to continued increase in fibre-enabled broadband
- Industrial action in Q2 also impacted our Quality of Service standards (QoS); our Ofcom copper QoS measures are now tracking at 19/30 for H1 with on-time copper and FTTP provision of 94% and repair of 84%

- Record FTTP build of 805k premises passed in Q2 at an average build rate of 62k per week; we are around 35% of the way through our 25m build
- FTTP footprint of 8.8m with initial build on a further 6m underway; now passed 2.8m premises in rural locations
- Record growth in FTTP take up with base of c.2.4m, weekly net adds of 25k and take up rate of 27%
- Our end customer satisfaction remains high; over 91% of customers survey responses score us between 8 to 10

[1] Financials and commentary are based on adjusted measures; see Glossary on page 1

Condensed consolidated financial statements

Group income statement

Half year to 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)**
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**

Half year to 30 September 2021	Note	Before specific items (Adjusted)	Specific items (note 5)	Total (Reported)
		£m	£m	£m
Revenue	2,3	10,308	(3)	**10,305**
Operating costs	4	(8,727)	(138)	**(8,865)**
Operating profit (loss)		1,581	(141)	**1,440**
Finance expense		(388)	(47)	**(435)**
Finance income		67	—	**67**
Net finance expense		(321)	(47)	**(368)**
Share of post tax profit (loss) of associates and joint ventures		—	—	**—**
Profit (loss) before tax		1,260	(188)	**1,072**
Taxation		(183)	(395)	**(578)**
Profit (loss) for the period		1,077	(583)	**494**

Group statement of comprehensive income

	Half year to 30 September	
	2022	2021
	£m	£m
Profit for the period	**1,030**	494
Other comprehensive income (loss)		
Items that will not be reclassified to the income statement		
Remeasurements of the net pension obligation	(1,137)	(700)
Tax on pension remeasurements	283	475
Items that have been or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	249	36
Fair value movements on assets at fair value through other comprehensive income	(4)	7
Movements in relation to cash flow hedges:		
– net fair value gains (losses)	2,377	(128)
– recognised in income and expense	(1,179)	465
Tax on components of other comprehensive income that have been or may be reclassified	(303)	(78)
Other comprehensive income (loss) for the period, net of tax	**286**	77
Total comprehensive income (loss) for the period	**1,316**	571

Group balance sheet

	Note	30 September 2022	31 March 2022
		£m	£m
Non-current assets			
Intangible assets		13,896	13,817
Property, plant and equipment		21,214	20,599
Right-of-use assets		4,250	4,429
Derivative financial instruments	8	2,625	1,003
Investments[1]		10,405	11,113
Associates and joint ventures	11	421	5
Trade and other receivables[2]		467	337
Contract assets		329	361
Preference shares in joint venture	11	589	—
Retirement benefit obligations		161	—
Deferred tax assets		789	289
		55,146	51,953
Current assets			
Programme rights[3]		—	310
Inventories		358	300
Trade and other receivables[2]		2,941	2,651
Contract assets		1,550	1,554
Assets classified as held for sale		—	80
Current tax receivable		497	496
Derivative financial instruments		210	88
Investments		2,885	2,679
Cash and cash equivalents		406	772
		8,847	8,930
Current liabilities			
Loans and other borrowings		1,415	873
Derivative financial instruments		76	51
Trade and other payables[4]		6,513	6,137
Contract liabilities		845	833
Lease liabilities		807	795
Liabilities held for sale		—	40
Current tax liabilities		52	90
Provisions		153	222
		9,861	9,041
Total assets less current liabilities		**54,132**	51,842
Non-current liabilities			
Loans and other borrowings		16,906	15,897
Derivative financial instruments		200	819
Contract liabilities		191	170
Lease liabilities		4,750	4,965
Retirement benefit obligations		1,888	1,143
Other payables[4]		988	598
Deferred tax liabilities		2,411	1,960
Provisions		452	439
		27,786	25,991
Equity			
Share capital		2,172	2,172
Share premium		8,000	8,000
Other reserves		2,466	1,326
Retained earnings		13,708	14,353
Total equity		**26,346**	25,851
		54,132	51,842

[1] £10,369m of the non-current investments relates to amounts owed by the Parent company. Refer to note 12.
[2] Trade and other receivables at 30 September 2022 includes deferred consideration resulting from the Sports JV transaction. £20m has been recognised as current and £50m as non-current. See note 6 for more details.
[3] Decrease relates to the derecognition of the sports rights as part of the disposal of BT Sport, see note 6.
[4] Trade and other payables at 30 September 2022 includes the financial liability recognised in relation to the minimum guarantee resulting from the Sports JV transaction. £196m has been recognised within current trade and other payables and £533m within non-current other payables. See note 6 for more details.

Group statement of changes in equity

	Share Capital	Share Premium	Other Reserves	Retained earnings	Total Equity
	£m	£m	£m	£m	£m
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
Other movements	—	—	—	—	—
At 30 September 2022	**2,172**	**8,000**	**2,466**	**13,708**	**26,346**
At 1 April 2021	2,172	8,000	1,143	10,378	21,693
Profit for the period	—	—	—	494	494
Other comprehensive income (loss) before tax	—	—	(85)	(700)	(785)
Tax on other comprehensive (loss) income	—	—	(78)	475	397
Transferred to the income statement	—	—	465	—	465
Total comprehensive income (loss) for the period	—	—	302	269	571
Dividends to shareholders	—	—	—	—	—
Share-based payments	—	—	—	49	49
Other movements	—	—	1	(1)	—
At 30 September 2021	2,172	8,000	1,446	10,695	22,313

Group cash flow statement

	Half year to 30 September	
	2022	2021 (Restated)[1]
	£m	£m
Cash flow from operating activities		
Profit before taxation	968	1,072
Share of post tax (profit) loss of associates and joint ventures	(2)	—
Net finance expense	265	368
Operating profit	**1,231**	1,440
Other non-cash charges	37	67
(Profit) loss on disposal of businesses	188	7
Depreciation and amortisation	2,332	2,169
(Increase) decrease in inventories	(54)	33
Decrease (increase) in programme rights	7	(4)
(Increase) decrease in trade and other receivables	(393)	(158)
Decrease (increase) in contract assets	37	(30)
Increase (decrease) in trade and other payables	124	(410)
Increase (decrease) in contract liabilities	19	(99)
(Decrease) increase in other liabilities[2]	(546)	(586)
(Decrease) increase in provisions	(35)	(17)
Cash generated from operations	**2,947**	2,412
Income taxes paid	(33)	(20)
Net cash inflow from operating activities	**2,914**	2,392
Cash flow from investing activities		
Interest received	11	—
Dividends received from associates and joint ventures	1	1
Proceeds on disposal of subsidiaries, associates and joint ventures[1]	29	22
Net outflow on non-current amounts owed by ultimate parent company	(664)	(151)
Proceeds on disposal of current financial assets[3]	5,897	4,478
Purchases of current financial assets[3]	(5,994)	(4,494)
Net (purchase) disposal of non-current asset investments	—	(1)
Purchases of property, plant and equipment and intangible assets	(2,756)	(2,051)
Net cash outflow from investing activities	**(3,476)**	(2,196)
Cash flow from financing activities		
Interest paid	(391)	(396)
Repayment of borrowings	—	(1)
Proceeds from bank loans and bonds	848	—
Payment of lease liabilities	(370)	(319)
Cash flows from derivatives related to net debt	155	26
Changes in ownership interests in subsidiaries[1]	—	(86)
Net cash outflow from financing activities	**242**	(776)
Net decrease in cash and cash equivalents	**(320)**	(580)
Opening cash and cash equivalents[4]	687	893
Net decrease in cash and cash equivalents	(320)	(580)
Effect of exchange rate changes	19	3
Closing cash and cash equivalents[4]	**386**	316

[1] Changes in ownership interest in subsidiaries of £(86)m in the half year to September 2021 relate to the acquisition of the remaining 30% of the share capital of BT OnePhone Limited. This was presented within cash flow from investing activities in the FY22 interim financial statements (£(96)m acquisition of non-current interest in subsidiaries and £10m proceeds on disposal of subsidiaries, associates and joint ventures). The full year cash flow statement presented in Annual Report 2022 reflects these cash flows as relating to financing activities in line with IAS 7 requirements on cash payments to owners to acquire an entity's shares. Prior year comparatives presented above have been restated for consistency, with corresponding impacts on net cash outflows from investing and financing activities.
[2] Includes pension deficit payments of £594m for the half year to 30 September 2022 (H1 FY22: £600m).
[3] Primarily consists of investment in and redemption of amounts held in liquidity funds.
[4] Net of bank overdrafts of £20m (H1 FY22: £73m).

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 2022 and 2021 together with the balance sheet at 31 March 2022. The financial statements for the half year to 30 September 2022 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 UK-adopted IAS 34 'Interim Financial Reporting'. The financial statements should be read in conjunction with the Annual Report 2022 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 £1.0bn at 30 September 2022 (£0.1bn net current liabilities at 31 March 2022). 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 2022. 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 2022, the group had cash and cash equivalents of £0.4bn and current asset investments of £2.9bn. 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.

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 2022 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 information for the year ended 31 March 2022 does not constitute 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 2022.

A reference to a year expressed as FY23 is to the financial year ended 31 March 2023.

New and amended accounting standards effective during the year

The following new or amended standards and interpretations are applicable in the current period:

Amendments to IAS 37 for onerous contracts

The group adopted Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37) from 1 April 2022. This resulted in a change in accounting policy for performing an onerous contracts assessment. Previously, only incremental costs to fulfil a contract were included when determining whether that contract was onerous. The revised policy is to include both incremental costs and an allocation of other costs directly attributable to the fulfilment of a contract.

The amendments apply prospectively to contracts existing at the date when the amendments are first applied. We analysed contracts existing at 1 April 2022 and identified the cumulative effect of applying the revised policy to be a £12m increase in the onerous contract provision. This has been recorded as an opening balance adjustment to retained earnings. Comparative figures have not been restated.

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

The following new or amended standards and interpretations are applicable in future periods:

IFRS 17 'Insurance Contracts'

We are in the process of assessing the impact of adopting this standard which is effective for BT from 1 April 2023. This will be disclosed in the FY23 financial statements.

Other

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

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. The following were identified as being potentially significant to the group:

Demand Deposits with Restrictions on Use arising from a Contract with a Third Party

In its agenda decision, the IFRIC concluded that restrictions on the use of demand deposits arising from a contract with a third party do not result in the deposits no longer being classified as cash and cash equivalents, unless those restrictions change the nature of the deposit in a way such that it would no longer meet the definition of cash in IAS 7.

Application of this agenda decision to deposits held by the group identified one bank account with restrictions on use that nonetheless meets the IAS 7 definition of cash. This bank account was subsequently recognised on the group balance sheet and is now reflected in the cash and cash equivalents balance presented throughout the financial statements. An equal and opposite amount was recognised in trade payables.

The balance on this account was £101m at 30 September 2022, £148m at 31 March 2022 and £89m at 30 September 2021. Prior period comparatives have not been restated as the impact is not considered material, having regard to the fact that a corresponding liability is recognised within trade payables and therefore has no bearing on the group's net assets.

The impact on the cash flow statement is not considered to be material and recognition of the balance is presented as an increase in trade and other payables.

2. Operating results – by customer-facing unit

	External Revenue	Internal revenue	Group revenue	Adjusted EBITDA[1]	Operating profit
Half year to 30 September 2022	**£m**	**£m**	**£m**	**£m**	**£m**
Consumer	**4,962**	**30**	**4,992**	**1,295**	**594**
Enterprise	**2,382**	**57**	**2,439**	**660**	**223**
Global	**1,617**	**—**	**1,617**	**197**	**42**
Openreach	**1,393**	**1,443**	**2,836**	**1,711**	**724**
Other	**14**	**—**	**14**	**11**	**(41)**
Intra-group items	**—**	**(1,530)**	**(1,530)**	**—**	**—**
Total adjusted[2]	**10,368**	**—**	**10,368**	**3,874**	**1,542**
Specific items (note 5)			**(2)**		**(311)**
Total			**10,366**		**1,231**
Half year to 30 September 2021					
Consumer	4,816	41	4,857	1,077	376
Enterprise	2,519	53	2,572	852	496
Global	1,654	—	1,654	207	22
Openreach	1,305	1,402	2,707	1,561	669
Other	14	—	14	53	16
Intra-group items	—	(1,496)	(1,496)	—	—
Total adjusted[2]	10,308	—	10,308	3,750	1,579
Specific items (note 5)			(3)		(141)
Total			10,305		1,438

[1] For the reconciliation of adjusted EBITDA, see additional information on page 25.
[2] See Glossary on page 1.

3. Operating results - disaggregation of external revenue

Half year to 30 September 2022	Consumer	Enterprise	Global	Openreach	Other	Total
	£m	£m	£m	£m	£m	£m
ICT and managed networks	**—**	**839**	**826**	**—**	**—**	**1,665**
Fixed access subscription revenue	**2,096**	**839**	**139**	**1,361**	**—**	**4,435**
Mobile subscription revenue	**1,702**	**522**	**40**	**—**	**—**	**2,264**
Equipment and other services	**1,164**	**182**	**612**	**32**	**14**	**2,004**
Total adjusted[1] revenue	**4,962**	**2,382**	**1,617**	**1,393**	**14**	**10,368**
Specific items (note 5)						**(2)**
Total revenue						**10,366**
Half year to 30 September 2021						
ICT and managed networks	—	880	860	—	—	1,740
Fixed access subscription revenue	1,990	823	135	1,270	—	4,218
Mobile subscription revenue	1,647	633	37	—	1	2,318
Equipment and other services	1,179	183	622	35	13	2,032
Total adjusted[1] revenue	4,816	2,519	1,654	1,305	14	10,308
Specific items (note 5)						(3)
Total revenue						10,305

[1] See Glossary on page 1.

4. Operating costs

	Half year to 30 September	
	2022	2021
	£m	£m
Operating costs by nature		
Wages and salaries	1,920	1,919
Social security costs	213	193
Other pension costs	303	303
Share-based payment expense	41	49
Total staff costs	**2,477**	2,464
Own work capitalised	(641)	(451)
Net staff costs	**1,836**	2,013
Net indirect labour costs	188	135
Net labour costs	**2,024**	2,148
Product costs	1,510	1,535
Sales commissions	313	318
Payments to telecommunications operators	605	654
Property and energy costs	630	513
Network operating and IT costs	480	450
TV programme rights charges	354	452
Provision and installation	330	243
Marketing and sales	190	116
Net impairment losses on trade receivables and contract assets	68	54
Other operating costs	102	191
Other operating income	(112)	(116)
Depreciation of property, plant and equipment	1,417	1,309
Depreciation of Right-of-use assets	338	349
Amortisation of intangible assets	577	511
Total operating costs before specific items	**8,826**	8,727
Specific items (note 5)	309	138
Total operating costs	**9,135**	8,865

During FY22 we implemented a new accounting system along with a new chart of accounts that provided improved visibility of the group's cost base. As a result we refined the classification of costs within the operating costs disclosure. Improved data allowed us to better allocate subcontractor costs to indirect labour costs, and allocate more costs to specific cost categories as opposed to within other operating costs. Following detailed analysis of the underlying causes of reallocations we concluded they were not indicative of material errors in previously published financial data including the FY22 comparatives.

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 business restructuring programmes, 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.

	Half year to 30 September	
	2022	2021
	£m	£m
Specific revenue		
Retrospective regulatory matters	**2**	3
Specific revenue	**2**	3
Specific operating costs		
Restructuring charges	**122**	135
BT Sport disposal	**188**	—
Other divestment-related items	**(1)**	5
Covid-19	**—**	(2)
Specific operating costs	**309**	138
Specific operating loss	**311**	141
Finance costs associated with BT Sport disposal	**(13)**	—
Interest expense on retirement benefit obligation	**9**	47
Net specific items charge before tax	**307**	188
Tax charge (credit) on specific items	**(220)**	395
Net specific items charge after tax	**87**	583

Retrospective regulatory matters

We recognised a charge of £2m (H1 FY22: £3m) in relation to historical regulatory matters, recognised in revenue. This reflects the movement in provisions relating to various matters.

Restructuring charges

In the year we incurred charges of £122m (H1 FY22: £135m) relating to projects associated with our group-wide modernisation programme, first announced in May 2020. Costs primarily relate to leaver costs, consultancy costs and staff costs associated with colleagues working exclusively on transformation activity. We have now announced that we will target gross annualised cost benefits of £3.0bn by FY25, at an expected cost of £1.6bn. £0.9bn costs have been incurred to date.

BT Sport disposal

During the half year we completed the disposal of BT Sport operations. We recognised a profit on disposal of £3m in specific items, made up of £188m charges recognised within operating costs net of £191m tax credit. We also recognised a £13m credit within finance costs as specific, relating to a hedge for sports rights payments that became ineffective due to the divestment. Further details on the BT Sport disposal can be found in note 6.

Other divestment-related items

We recognised a net credit of £1m (H1 FY22: charge of £5m) relating to small true-up charges on previous transactions and costs relating to ongoing divestment projects.

Covid-19

In FY20, we recognised one-off charges of £95m relating to the impact of Covid-19 on various balance sheet items. Any releases of these provisions have also been booked as a specific item. At 31 March 2022 we retained £12m (31 March 2021: £55m) of provisions related to Covid-19. In H1 FY23, we utilised £7m of this provision. At 30 September 2022, we retain a provision of £5m.

Interest expense on retirement benefit obligation

We incurred £9m (H1 FY22: £47m) of interest costs in relation to our defined benefit pension obligations.

Tax on specific items

A tax credit of £220m (H1 FY22: charge of £395m) was recognised in relation to specific items. Of this, £191m relates to the disposal of BT Sport.

6. BT Sport disposal

In August 2022 we formed a sports joint venture ('JV') with Warner Bros. Discovery ('WBD') combining BT Sport and WBD's Eurosport UK business. As part of the transaction, BT and WBD has each contributed, sub-licensed or delivered the benefit of their respective sports rights and distribution businesses for the UK & Ireland to the JV. Both parties each hold a 50% interest and equal voting rights in the JV.

BT Sport's distribution agreement with Virgin Media has transferred to the JV, and the JV has also entered into a new agreement with Sky extending beyond 2030 to provide for its distribution of the JV's combined sports content.

The production and operational assets of BT Sport have transferred to WBD who will manage and operate the production of the JV's sport content.

BT has entered into a distribution agreement with the JV to procure the sport content required to continue to supply our broadband, TV and mobile customers. BT's agreement with the JV will extend beyond 2030 and for the first four years includes a minimum revenue guarantee of approximately £500m per annum, after which the agreement will change to a fully variable arrangement.

At completion of the transaction, BT no longer has control of the BT Sport operations based on the assessment of ownership and joint control over the key decisions of the JV (50/50 with WBD) established through the JV agreement. The group's retained interest in the combined business has been classified as a joint venture under IFRS 11.

WBD will have the option to acquire BT's 50% interest in the JV at specified points during the first four years of the JV ('Call Option'). The price payable under the Call Option will be 50% of the fair market value of the JV to be determined at the time of the exercise, plus any unpaid fixed consideration and remaining earn-out as described below. If the Call Option is not exercised, BT will have the ability to exit its shareholding in the JV either through a sale or IPO after the initial four-year period.

BT Sport has not been reclassified as a discontinued operation as it does not meet our definition of a separate major line of business.

The consideration recognised on completion of the transaction was as follows:

	FY23
	£m
Intangible assets[1]	88
Property, plant and equipment	13
Right-of-use assets	1
Other assets[2]	760
Liabilities[2]	(357)
Net assets of operations over which control has been lost	**505**
Net financial liabilities recognised[3]	559
Net impact on the consolidated balance sheet	**1,064**
Profit on disposal after tax[4]	3
Total consideration	**1,067**
Satisfied by	
Cash consideration received in the year	29
Deferred cash consideration[5]	70
Contingent consideration (investment in A preference shares, note 11)	428
Deferred consideration (investment in C preference shares, note 11)	161
Equity interest in JV (50%)	414
Transaction costs	(35)
Total consideration	**1,067**

[1] Includes allocated goodwill of £83m.
[2] Includes capitalised programme rights of £736m of which £351m has yet to be paid to broadcast rights holders and is included within Liabilities.
[3] Fair value of BT's obligation under the minimum revenue commitment of £745m less deferred tax credit of £186m.
[4] Profit on disposal after tax has been recognised as a specific item, refer to note 5.
[5] Discounted cash flows due to BT from fixed consideration payable by WBD in instalments over the next three years.

Significant accounting estimates, judgements and assumptions

The following judgements apply to the BT Sport disposal:

Assessment of whether BT has joint control over the JV

The JV is classified as a joint venture and hence has been deconsolidated from the group based on an assessment under IFRS 10 and 11 of the ownership, voting power and joint control established through the JV agreement between BT and WBD.

Factors relevant to our assessment:

- Equal voting rights over the activities that most significantly impact the returns of the JV, namely decisions around new or existing sports rights and distribution arrangements.
- Unequal cash distribution during the first four years due to the earn out mechanism and relative size of businesses contributed into the JV.
- WBD's call option to acquire BT's 50% interest in the JV is not exercisable before key decisions over material activities of the JV are made such that joint control still applies at the outset.

The assessment whether joint control remains in place is reviewed at each reporting period.

Valuation of contingent consideration (investment in A preference shares, see note 11)

BT will receive approximately £428m (discounted) by way of an earn-out from the JV during the earn-out period, subject to liquidity and usual UK company law requirements. The earn-out period will end at the earliest of:

i. four years post completion of the transaction;
ii. the exercise by WBD of the Call Option; and
iii. if the earn-out reaches an agreed cap.

This earn-out consideration is contingent on the cash profit generation of the JV over the earn out period and has therefore been recognised as contingent consideration, initially recorded at fair value and then remeasured at each reporting date in accordance with IFRS 9. The valuation of the earn-out consideration is supported by a jointly-agreed business plan and internal valuation model.

The key assumptions within the jointly-agreed business plan and internal valuation model are:

- approximately 50% of revenues and 80% of costs during the four years of the jointly-agreed business plan are contractually committed;
- material contractual renewals (wholesale agreements and rights renewals) over the earn-out period are renewed at similar terms;
- the total premium sports subscriber base does not materially grow or decline over the earn out period; and
- revenue growth and production costs are driven by contractual pricing.

We have applied the sensitivities to the valuation including non-renewal of material contracts and a decline in the market base impacting revenues. Given the level of contractual revenues and costs, limited growth assumptions within the jointly-agreed business plan, changes that would apply to the minimum revenue guarantee (see below) on non-renewal of sports rights, and the earnings cap that applies to the earn-out consideration, we consider there is no reasonable variation of these sensitivities that would have a material impact on the financial statements.

We have also assumed that the earn-out period ends at four years post completion of the transaction however given the mechanics of the deal arrangements if there is an earlier exercise by WBD of their Call Option this would also not materially impact the amounts disclosed in the financial statements.

Valuation of the minimum revenue guarantee in BT's distribution agreement with the JV

BT's obligation under the minimum revenue guarantee of £2bn over the next four years is higher than the fair value of the related revenue streams, and therefore the delta between our committed expenditure and the value that we currently expect to generate represents a financial liability that has been recorded as a financial liability within trade and other payables on the balance sheet. This liability will unwind through payments made to the JV over the next 4 years on the minimum revenue guarantee. The liability will be held at amortised cost and adjusted each reporting period to reflect actual cash flows or any revised estimated future cash flows in accordance with IFRS 9, for example due to a material loss of the JV's sports rights portfolio.

The valuation of this financial liability, and what a fair cost-per-subscriber would be, is sensitive to a number of assumptions on volumes and price, and there is a range of outcomes which we could have arrived at. The range of scenarios considered, based on the different prices and terms used with other market participants, resulted in a liability of between £619m and £1,085m. We have recognised a financial liability of £745m.

The key assumptions in calculating the financial liability are in estimating what is a market wholesale price and what are the forecast volumes for the related revenue streams. The volumes used are consistent with those included in the jointly-agreed business plan as described above. Estimates of market price are based on recent and historic contractual negotiations with third party market participants. We note that the bottom of the range disclosed above is based on the price that we will pay after 4 years when the minimum revenue guarantee has ended, however we do not believe that is an appropriate rate from the outset due to existing volume commitments.

Valuation of BT's equity interest in the JV

WBD will have the option to acquire BT's 50% interest in the JV at specified points during the first four years of the JV. If the Call Option is not exercised, BT will have the ability to exit its shareholding in the JV either through a sale or IPO.

The group has valued its interest in the JV based on the estimated fair value at exit and using the following key assumptions:

- BT expect to realise its interest in the JV through exit rather than ongoing value in use;
- BT expect WBD to exercise its option to acquire BT's 50% interest in the JV at the end of the first four years of the JV; and
- An earnings multiple has been applied to the expected year 5 EBITDA based on the jointly-agreed business plan, this is based on comparable peers in the premium sports subscriber and comparable transactions in the premium sports subscriber. In applying the multiples we have used the lower end of the ranges identified from comparable peers and transactions.

As the group's interest is recorded on a point in time valuation, based on forecast earnings and current market returns on similar investments, it carries both upside and downside risk from changes in micro and macro-economic factors affecting the sports content subscription market and risk appetite of investors in that market.

We have applied the following sensitivities on these risk factors:

- EBITDA impact from loss of material sports rights or a significant decline in the JV's revenues from ongoing cost of living pressures;
- An increase or decrease in the valuation multiple achieved; and
- An increase or decrease in the discount rate applied.

None of these sensitivities individually resulted in a material change to the investment value. All factors in combination could lead to a material change but, in our view, this is not a reasonable scenario given the financial and commercial levers available to both the JV and BT to mitigate the impact.

The investment will be subsequently accounted for using the equity method (see note 11) and will be subject to impairment testing at each reporting period, with any impairment losses recognised through Specific Items.

Discounting of cash flows

All cash flows expected to be received or paid over time have been discounted at a rate applicable to the risks associated with the cash flows:

- Deferred payments due to BT from WBD have been discounted at an appropriate post-tax cost of debt (3.3%);
- BT's earn-out from the JV has been discounted at the weighted average cost of capital for the JV at completion date (6.7%); and
- BT's commitments under the minimum guarantee have been discounted at the group's post-tax cost of debt (2.8%).

We do not consider the net present value of the transaction would be materially affected by a reasonable change in the discount rate.

7. Pensions

	30 September 2022	31 March 2022
	£bn	£bn
IAS 19 liabilities – BTPS	**(40.6)**	(54.3)
Assets – BTPS	**39.0**	53.5
Other schemes	**(0.1)**	(0.3)
Total IAS 19 deficit, gross of tax[1]	**(1.7)**	(1.1)
Total IAS 19 deficit, net of tax	**(1.4)**	(1.0)
Discount rate (nominal)	**5.35 %**	2.75 %
Discount rate (real)[2]	**1.49 %**	(0.92)%
Future inflation – average increase in RPI (p.a.)	**3.80 %**	3.70 %
Future inflation – average increase in CPI (p.a.)	**3.30 %**	3.25 %

[1] Of which £(1.9)bn relates to schemes in deficit (31 March 2022: £(1.1)bn) and £0.2bn relates to schemes in surplus (31 March 2022: £nil).
[2] The real rate is calculated relative to RPI inflation.

The IAS 19 deficit has increased from £1.1bn at 31 March 2022 to £1.7bn at 30 September 2022. Net of deferred tax, the deficit has increased from £1.0bn to £1.4bn.

Mechanically applying our year-end assumptions methodology to reflect 30 September market conditions increased the BTPS real discount rate from (0.92)% pa to 1.49% pa, and reduced the liabilities by £14bn. The BTPS assets are well hedged to movements in interest rates and inflation, through holdings of bonds and derivatives. The assets fell by £15bn mainly due to the substantial increase in real gilt yields, partially offset by deficit contributions of £0.6bn.

8. Financial instruments and risk management

Fair value of financial assets and liabilities measured at amortised cost

At 30 September 2022, the fair value of listed bonds was £16,134m (31 March 2022: £16,750m) and the carrying value was £17,570m (31 March 2022: £15,545m).

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

- Preference shares in joint venture (C preference shares), see note 11
- 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 2022.

The current trade and other payables balance of £6,513m includes £191m (31 March 2022: £89m) of trade payables that have been factored by suppliers in a supply chain financing programme. These programmes are used with a limited number of suppliers with short payment terms to extend them to a more typical payment term.

Fair value estimation

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

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

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:

- Preference shares in joint venture (A preference shares) recognised in relation to the Sports JV transaction, see note 11 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 2022	**£m**	**£m**	**£m**	**£m**
Preference shares in joint venture				
Fair value through profit and loss	—	—	428	428
Investments				
Fair value through other comprehensive income	—	—	31	31
Fair value through profit and loss	—	—	5	5
Derivative assets				
Designated in a hedge	—	2,364	313	2,677
Fair value through profit and loss	—	158	—	158
Total assets	—	2,522	777	3,299
Derivative liabilities				
Designated in a hedge	—	128	—	128
Fair value through profit and loss	—	148	—	148
Total liabilities	—	276	—	276

31 March 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
Investments				
Fair value through other comprehensive income	4	—	30	34
Fair value through profit and loss	—	—	—	—
Derivative assets				
Designated in a hedge	—	924	31	955
Fair value through profit and loss	—	136	—	136
Total assets	4	1,060	61	1,125
Derivative liabilities				
Designated in a hedge	—	734	3	737
Fair value through profit and loss	—	133	—	133
Total liabilities	—	867	3	870

£1m gain has been recognised in the income statement in respect of Level 3 instruments held at 30 September 2022. 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 £1,727m (31 March 2022: £1,596m). Programme rights commitments, mainly relating to football broadcast rights for which the licence period has not yet started, were £nil (31 March 2022: £997m) due to the BT Sport disposal (see note 6).

10. Contingent liabilities

Legal proceedings

The group is involved in various proceedings, including actual or threatened litigation, and government or regulatory investigations. However, save as disclosed below, the group does not currently believe that there are any legal proceedings, or government or regulatory investigations that may have a material adverse impact on the operations or financial condition of the group. In respect of each of the claims below, the nature and progression of such proceedings and investigations make it difficult to make a reliable estimate of the potential outflow of funds that might be required to settle the claims where there is a more than remote possibility of there being an outflow. 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, 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) on behalf of our landline customers alleging anti-competitive behaviour through excessive pricing by BT to customers with certain residential landline services. Ofcom considered this topic more than four 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). 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. 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). We appealed the opt-out nature of that decision and in May 2022 the Court of Appeal determined that the claim should proceed on an opt-out basis. A hearing window has been set for January – April 2024. BT intends to defend itself vigorously.

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 expected to last at least two years. 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 have now applied to join 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.

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 parties are now awaiting judgment, and the court has not yet indicated when it will be delivered. A second trial on 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. The CMA's initial information gathering will continue until January 2023. The CMA has said no assumption should be made at this stage that competition law has been infringed. BT is cooperating with the investigation.

Regulatory matters

In the ordinary course of business, we are periodically notified of regulatory and compliance matters and investigations. We provide for anticipated costs where an outflow of resources is considered probable and a reasonable estimate can be made of the likely outcome. Provisions reflect management's estimates of regulatory and compliance risks across a range of issues, including price and service issues.

The precise outcome of each matter depends on whether it becomes an active issue, and the extent to which negotiation or regulatory and compliance decisions will result in financial settlement. The ultimate liability may vary from the amounts provided and will be dependent upon the eventual outcome of any settlement.

11. Joint ventures and associates

	30 September 2022	31 March 2022
	£m	£m
Interest in joint ventures	417	2
Interest in associates	4	3
Closing balance	**421**	**5**

The movement in joint ventures relates to the disposal of BT Sport and the creation of a new sports joint venture with Warner Bros. Discovery.

Sports JV

In August 2022 we formed a sports joint venture ('JV') with Warner Bros. Discovery ('WBD') combining BT Sport and WBD's Eurosport UK business – refer to note 6 for further information.

On completion of the transaction, the group recorded an investment in joint venture at fair value of £414m relating to our retained 50% interest in the JV entity, in accordance with IFRS 10 and IAS 28. The group has valued this interest in the JV at the estimated fair value at exit - see note 6. Consistent with our accounting policy on associates and joint ventures, we will recognise our share of the results of the JV under the equity method of accounting.

The opening net assets of the JV at formation are equal to the fair value of the BT Sport and Eurosport UK businesses contributed to the JV by the group and WBD respectively; the movement in net assets is equal to the trading profits generated by the JV in the one month since formation, of which we have recognised 50% at the half year. The closing carrying value of the groups interest in the JV is £415m.

In addition to BT's 50% ordinary shareholding in the JV, at 30 September BT hold the following financial instruments in the JV that have not been included within the equity-accounted interest above.

Preference shares

	30 September 2022	31 March 2022
	£m	£m
Investment in A preference shares	428	—
Investment in C preference shares	161	—
Closing balance	**589**	**—**

BT holds two different class of preference shares in the JV:

- A preference shares – we expect these shares to be redeemed by the JV over the 4-year earn-out period in order to effect 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 JV and therefore have been classified as a fair value through profit of loss ('FVTPL') financial asset under IFRS 9. The fair value of £428m on initial recognition has been included as contingent consideration within the profit on disposal recognised on the JV transaction (see note 6) and any changes in fair value in subsequent periods will be recognised through Specific Items.

- C preference shares – these shares will 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 amortised cost under IFRS 9. In our view, the cash flows due to BT from these shares represents deferred consideration and therefore, the fair value of £161m on initial recognition has been included as deferred consideration within the profit on disposal recognised on the JV transaction (see note 6).

Revolving Credit Facility

As part of the transaction, the group has committed to providing the JV with a sterling Revolving Credit Facility ('RCF'), up to a maximum of £200m, for short-term liquidity required by the JV to fund its working capital and commitments to sports rights holders. Amounts drawn down by the JV under the RCF accrue interest at a market reference rate, consistent with group's external short-term borrowings. Any outstanding balance under the RCF will be treated as a loan receivable held at amortised cost, and disclosed as a related party transaction, see note 12.

Foreign currency forward contracts

On completion of the transaction, the JV entered into a 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.

Trade receivables and payables

The group will hold trade receivables and payables with the JV generated from our ongoing commercial arrangements with the JV, which will be settled periodically in line with usual payments terms of similar trading balances. Amounts receivable from or payable to the JV will be disclosed as related party transactions, see note 12.

12. 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 2022	31 March 2022	**30 September 2022**	30 September 2021
	£m	£m	**£m**	£m
Amounts owed by (to) parent company				
Loan facility – non-current asset investments	**10,369**	11,079	139	63
Amounts owed by (to) ultimate parent company				
Current asset investments	**74**	—	—	—
Non-current liabilities loans	**—**	(585)	—	(2)
Trade and other receivables	**28**	27	n/a	n/a
Trade and other payables	**(11)**	(11)	n/a	n/a
Current liabilities loans	**—**	—	n/a	n/a

Sales of services to and purchases from the Sports JV formed with Warner Bros. Discovery in August 2022 (see note 6) were not material in the six months ended 30 September 2022 as this was a joint venture for only one month of the period. The amount receivable from the Sports JV as at 30 September 2022 was £12m and the amount payable to the Sports JV was £55m. £9m of the amount receivable represents the drawn down amount of the £200m rolling credit facility provided to the JV, refer to note 11 to details.

The group also holds a £73m derivative liability in respect of forward contracts provided to the Sports JV.

Apart from the Sports JV, in the six months ended 30 September 2022 there have been no material changes in sales of services to and purchases from associates and joint ventures.

Amounts receivable from and payable to associates and joint ventures are disclosed below:

	30 September 2022	31 March 2022
	£m	£m
Amounts receivable from associates and joint ventures	**12**	2
Amounts payable to associates and joint ventures	**56**	1

13. Principal risks and uncertainties

We have processes for identifying, evaluating and managing our risks. Details of our principal risks and uncertainties can be found on pages 16 to 23 of the Annual Report 2022 and are summarised below. These have not materially changed since then. They have the potential to have an adverse impact on our profit, assets, liquidity, capital resources and reputation.

Strategic

Strategy, technology and competition - We could fail to properly respond to an uncertain economic outlook, intensifying competition, rapid technological change, or fail to develop products and services that match market dynamics or customer expectations.
Stakeholder management - Ineffective management of stakeholders' expectations or failure to anticipate potential impacts upon them and the communities we serve might damage their trust in us. Particularly sensitive topics considered include network plans, customer fairness, net neutrality, responsible use of technology, environment, social and governance factors, human rights and industrial relations.

Financial

Financing - Financing is the risk that we cannot fund our business cash flows or meet our payment commitments. This could be caused by not generating enough cash, inability to refinance existing debt, being unable to access capital markets or a big increase in our pension scheme obligations.
Financial control - We have in place financial controls to prevent fraud (including misappropriation of assets) and to report accurately; failure to do this could result in material financial losses or cause us to misrepresent our financial position, undermining trust and damaging our reputation.

Compliance

Communications regulation - Areas of non-compliance or weak controls could result in increased regulatory challenge and formal investigations which could lead to reputational damage, fines and/or loss of licences. Key areas that could result in regulatory scrutiny include billing accuracy, major system resilience, customer complaints, support for vulnerable customers, migration from legacy services and effectiveness in dealing with major incidents.
Data - Failing to comply with global data protection laws or regulations that apply to us could damage our reputation, affect our stakeholders' trust in us and harm our colleagues, customers and suppliers.
Legal compliance - Serious breaches of legal compliance can take place in many forms and can arise anywhere including but not limited to higher risk regions, countries and transactions as well as on complex matters and those where there is high pressure to deliver.
Financial services - Operating outside Financial Conduct Authority (FCA) rules, requirements or permissions could lead to customer harm, fines, loss of FCA permissions, poor adoption of new services and reputational damage.

Operational

Service interruption - Service interruptions may be caused by various external factors such as, but not limited to, adverse weather conditions and accidental or intentional damage to our assets. The impact of poorly planned or executed maintenance and upgrade changes on our networks and IT can also contribute to service interruptions.
Cyber security - A poorly managed cyber event could lead to financial loss and reputational harm followed by a sustained loss of market share and could prompt intervention by a regulator who could impose fines or penalties. As a provider of critical national infrastructure, a cyber attack could also lead to disruption for our customers and the country and data could be compromised.
Transformation delivery - Failing to deliver our externally communicated transformation ambitions will adversely impact our efficiency, financial performance, and customer experience while impacting reputation.
People - Failure to engage the workforce, ensure their health and wellbeing, manage industrial relations and create a diverse and inclusive workplace could impact our performance, customer service and transformation ambitions.
Health, safety and environment – Not promoting and embedding suitable safety management and environmental management systems incorporating continual improvement will impact our ability to establish and maintain a safe and compliant business, protecting our colleagues at work. Key areas of risk include occupational road risk, working with high voltage electricity, electro-magnetic fields, lasers, aerial rigging, civil engineering works (road works and construction), highway and railway operations, high pressure pipelines, manual handling and hazardous substances.
Major customer contracts - Customer contractual terms can be onerous and unfavourable if they are challenging to meet, and could lead to delays, penalties and disputes. Delivery and service failures against obligations could damage our brand and reputation, particularly if they affected critical infrastructure contracts or security services.

Failure to effectively manage contract exits, migrations, renewals and disputes can erode profit margins and affect future customer relationships.

Customer service - Failing to continuously digitise and improve our customer experience could negatively affect customer satisfaction and retention, colleague pride and advocacy, our group revenues and brand value.

Supply management - This risk includes in-life management of complex contracts, performance and obligation delivery, compliance, payments, supplier records and relationship management.

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

15 November 2022

INDEPENDENT REVIEW REPORT TO BRITISH TELECOMMUNICATIONS PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2022 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 2022 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

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

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

Conclusions relating to going concern

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

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

Directors' responsibilities

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

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

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

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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

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

John Luke
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square, London, E14 5GL
15 November 2022

Additional Information

Notes

Our commentary focuses on the trading results on an adjusted basis, which is a non-GAAP measure, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an understanding of the group's financial performance as specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. This is consistent with the way that financial performance is measured by management and reported to the Board and the Executive Committee and assists in providing a meaningful analysis of the trading results of the group. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Reported revenue, reported operating profit, reported profit before tax, reported net finance expense and reported EPS are the equivalent unadjusted or statutory measures. Reconciliations of reported to adjusted revenue, operating costs, operating profit, profit before tax and EPS are set out in the group income statement. Reconciliations of adjusted earnings before interest, tax, depreciation and amortisation, net debt and free cash flow from the nearest measures prepared in accordance with IFRS are provided in this Additional Information.

Reconciliation of adjusted earnings before interest, tax, depreciation and amortisation

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[1] EBITDA to be useful measures of our operating performance because they approximate the underlying operating cash flow by eliminating depreciation and amortisation. A reconciliation of reported profit for the period to EBITDA and adjusted[1] EBITDA is provided below.

	Half year to 30 September	
	2022	2021
	£m	£m
Reported profit for the period	**1,030**	494
Tax	**(62)**	578
Reported profit before tax	**968**	1,072
Net interest related finance expense	**262**	321
Depreciation and amortisation	**2,332**	2,169
EBITDA	**3,562**	3,562
EBITDA specific items	**311**	141
Net other finance expense	**3**	47
Share of post tax (profits) losses of associates and joint ventures	**(2)**	—
Adjusted[1] EBITDA	**3,874**	3,750

[1] See Glossary on page 1.

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.