Financial results

1 November 2012

BT GROUP PLC

RESULTS FOR THE SECOND QUARTER AND HALF YEAR TO 30 SEPTEMBER 2012

BT Group plc (BT.L) today announced its results for the second quarter and half year to 30 September 2012.

Ian Livingston, Chief Executive, commenting on the results, said:

"We have delivered another solid quarter of growth in profit before tax despite the economic conditions and regulatory impacts. We continue to make significant investments in the future of our business and we are again accelerating our fibre roll-out. We now expect fibre to be available to two-thirds of UK premises during spring 2014, more than 18 months ahead of our original schedule, and we are recruiting more than 1,000 engineers in 2012 to help deliver this.

"Over the summer we helped to deliver the most connected Olympic and Paralympic Games ever and I am proud of the part that our people played in its success.

"Our confidence in the future of our business is demonstrated by the 15% increase in the interim dividend."

Second quarter and half year results:

		Second quarter to 30 September 2012		Half year to 30 September 2012	
		£m	Change	**£m**	Change
Revenue[1]		**4,474**	(9)%	**8,958**	(7)%
Underlying revenue excluding transit			(5)%		(4)%
EBITDA[1]		**1,497**	flat	**2,960**	1%
Profit before tax[1]		**608**	7%	**1,186**	8%
Earnings per share	- adjusted[1]	**6.0p**	7%	**11.7p**	8%
	- reported	**7.2p**	13%	**13.0p**	15%
Interim dividend				**3.0p**	15%
Normalised[2] free cash flow		**316**	£(247)m	**192**	£(572)m
Net debt				**9,037**	£720m

Key points:

- More than 12m premises passed by fibre with over 950,000 now connected and growing strongly
- 47% share of DSL, LLU and fibre broadband market net additions
- For the 2013 financial year we expect
  - underlying revenue excluding transit to show an improved trend for the second half of the year compared with the first half, but not for the year as a whole
  - to grow adjusted EBITDA and deliver normalised free cash flow broadly level with 2012

[1] Before specific items
[2] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments

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RESULTS FOR THE SECOND QUARTER AND HALF YEAR TO 30 SEPTEMBER 2012

Group results

	Second quarter to 30 September			Half year to 30 September		
	2012	2011	Change	**2012**	2011	Change
	£m	£m	%	**£m**	£m	%
Revenue						
- adjusted[1]	**4,474**	4,894	(9)	**8,958**	9,658	(7)
- reported (see Note below)	**4,389**	4,484	(2)	**8,873**	9,248	(4)
- underlying excluding transit[2]			(5)			(4)
EBITDA						
- adjusted[1]	**1,497**	1,495	flat	**2,960**	2,931	1
- reported (see Note below)	**1,362**	1,428	(5)	**2,823**	2,798	1
Operating profit						
- adjusted[1]	**775**	742	4	**1,515**	1,439	5
- reported	**640**	675	(5)	**1,378**	1,306	6
Profit before tax						
- adjusted[1]	**608**	570	7	**1,186**	1,103	8
- reported	**602**	552	9	**1,186**	1,069	11
Earnings per share						
- adjusted[1]	**6.0p**	5.6p	7	**11.7p**	10.8p	8
- reported	**7.2p**	6.4p	13	**13.0p**	11.3p	15
Interim dividend				**3.0p**	2.6p	15
Capital expenditure	**596**	652	(9)	**1,218**	1,234	(1)
Free cash flow						
- normalised[3]	**316**	563	(44)	**192**	764	(75)
- adjusted[1]	**478**	671	(29)	**516**	979	(47)
Net debt				**9,037**	8,317	9

Note: Reported revenue and EBITDA include a specific item charge of £85m and £58m, respectively, in both the second quarter and half year to 30 September 2012 relating to the retrospective regulatory impact of the Court of Appeal decision on ladder pricing. In the prior year reported revenue included a specific item charge of £410m relating to a retrospective regulatory ruling in Germany, which had no impact on profits or cash. See Group results – Specific items for more details.

Line of business results[1]

	Revenue			EBITDA			Operating cash flow		
Second quarter to	**2012**	2011	Change	**2012**	2011	Change	**2012**	2011	Change
30 September	**£m**	£m	%	**£m**	£m	%	**£m**	£m	%
BT Global Services	**1,757**	2,014	(13)	**130**	159	(18)	**(171)**	(55)	n/m
BT Retail	**1,791**	1,853	(3)	**474**	445	7	**317**	344	(8)
BT Wholesale	**861**	982	(12)	**280**	305	(8)	**200**	222	(10)
Openreach	**1,269**	1,280	(1)	**582**	567	3	**246**	350	(30)
Other and intra-group items	**(1,204)**	(1,235)	3	**31**	19	63	**(114)**	(190)	40
Total	**4,474**	4,894	(9)	**1,497**	1,495	flat	**478**	671	(29)

[1] Before specific items. Specific items are defined below
[2] Underlying revenue excluding transit is defined below
[3] Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments
n/m = not meaningful

Notes:

1) Unless otherwise stated, any reference to revenue, operating costs, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, profit before tax, earnings per share (EPS) and free cash flow are measured before specific items. The commentary focuses on the trading results on an adjusted basis being before specific items. This is consistent with the way that financial performance is measured by management and is reported to the Board and the Operating Committee and assists in providing a meaningful analysis of the trading results of the group. The directors believe that presentation of the group's results in this way is relevant to the 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. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Specific items may not be comparable to similarly titled measures used by other companies. Reported revenue, reported EBITDA, reported operating profit, reported profit before tax, reported EPS and reported free cash flow are the equivalent unadjusted or statutory measures.

2) Underlying revenue, underlying costs and underlying EBITDA are measures which seek to reflect the underlying performance of the group that will contribute to long-term profitable growth and as such exclude the impact of acquisitions and disposals, foreign exchange movements and any specific items. We are focusing on the trends in underlying revenue excluding transit revenue as transit traffic is low-margin and is significantly affected by reductions in mobile termination rates.

3) Unless otherwise stated, the references 2011, 2012, 2013, 2014 and 2015 are the financial years to 31 March 2011, 2012, 2013, 2014 and 2015, respectively, except in relation to our fibre roll-out plans and recruitment plans which are based on calendar years.

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A presentation for analysts and investors will be held in London at 9.00am today and a simultaneous webcast will be available at www.bt.com/results

The third quarter results for 2013 are expected to be announced on Friday 1 February 2013.

About BT

BT is one of the world's leading providers of communications services and solutions, serving customers in more than 170 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 and internet products and services and converged fixed/mobile products and services. BT consists principally of four lines of business: BT Global Services, BT Retail, BT Wholesale and Openreach.

In the year ended 31 March 2012, BT Group's revenue was £18,897m with profit before taxation of £2,445m.

British Telecommunications plc (BT) 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 stock exchanges in London and New York.

For more information, visit www.btplc.com

BT Group plc

RESULTS FOR THE SECOND QUARTER TO 30 SEPTEMBER 2012

GROUP RESULTS

Operating results overview

This quarter a number of prior year and/or one-off items have impacted the year on year revenue trends.

Our key revenue trend measure, underlying revenue excluding transit, was down 5.5% in the quarter, a larger decline than in recent quarters due to the negative impact of the accelerated contract milestones recognised in the second quarter of last year and the Court of Appeal decision on ladder pricing (see Regulation below). Together these two items accounted for 1.9 percentage points of the decline and excluding these, underlying revenue excluding transit was down 3.6%, which is more in line with recent quarters. Our underlying revenue continues to be impacted by the tough conditions in Europe and the financial services sector, regulatory price reductions and lower revenue from calls and lines.

Reported revenue of £4,389m was down only 2%, benefitting from lower specific item charges to revenue compared with the prior year (see Specific items below). Our adjusted revenue measure, which excludes specific items, was down 9% at £4,474m, which is a larger decline than in recent quarters due to the negative impact of the contract milestones and ladder pricing noted above. The adjusted revenue trend was also impacted by a £79m decline in transit revenue (including mobile termination rate reductions of £48m), a £74m negative impact from foreign exchange movements, and a £14m impact from disposals.

Underlying operating costs before depreciation and amortisation were down 10%, a better trend than in recent quarters, partly due to the costs associated with the accelerated contract milestones in the prior year. Excluding these costs, underlying operating costs before depreciation and amortisation were down 9%. This reflects the impact of our cost efficiency programmes and reduced cost of sales due to the decline in revenue, including lower payments to other telecommunications operators. Excluding transit, underlying operating costs before depreciation and amortisation were also down 9%. Total operating costs before depreciation and amortisation and specific items decreased by £435m, or 12%, to £3,063m.

Adjusted EBITDA was broadly flat at £1,497m. Excluding a £7m negative impact from foreign exchange movements and a £4m impact from disposals, underlying EBITDA was up 1%, or 3% excluding the impact of ladder pricing and accelerated contract milestones recognised in the prior year.

Depreciation and amortisation of £722m was down 4%, largely due to the impact of additional depreciation and amortisation recognised in the prior year relating to some contract-specific assets and to lower overall capital expenditure over the last three financial years. Adjusted net finance expense was £169m, down 3%, and adjusted profit before tax was £608m, up 7%. Reported profit before tax (after specific items) was £602m, up 9%.

Capital expenditure was £596m, down 9% due to timing, having been up 7% in the first quarter.

Tax

The effective tax rate on the profit before specific items was 22.7% (Q2 2012: 24.1%) and is in line with our outlook of around 23% for the full year.

Regulation

In the quarter the Court of Appeal ruled that wholesale ladder termination pricing should not be applied for 0800, 0845 and 0870 calls from mobile phones terminating on our network. This overruled the Competition Appeal Tribunal judgment in August 2011 that found in favour of ladder pricing. Ladder pricing links the termination charge to the retail call prices charged by mobile operators for retail prices above a certain threshold. We are seeking leave to appeal the Court of Appeal decision and are supported by a number of other fixed line operators.

In 2012 we recognised revenue of £56m from ladder pricing, of which £27m was transit revenue arising from ladder pricing introduced by other communications providers, and £29m of EBITDA. However, as a result of the ruling, we are not recognising any revenue or profit from ladder pricing this year. This means that in the quarter we have reversed the £24m of revenue, of which £13m was transit revenue, and £11m of EBITDA which we had recognised in the first quarter. As revenue and EBITDA from ladder pricing was recognised last year, the year on year impact in the quarter has been to reduce revenue by £40m, of which £18m was transit revenue, and EBITDA by £22m. In addition, we have recognised a specific item charge of £85m against revenue and £58m against EBITDA, as well as a specific item cash payment of £63m, relating to amounts recognised from ladder pricing in the 2011 and 2012 financial years.

For 2013 we had expected ladder pricing to generate around £110m of revenue, of which around £50m was transit revenue, and around £60m of EBITDA and cash. The decision means that we now expect transit revenue for the group to decline by £250m–£350m this year.

The charge controls for WLR, LLU and ISDN30 products which became effective in April 2012 impacted revenue in the quarter. We continue to expect these to have a negative impact of around £100m–£200m on group external revenue in 2013 with a further similar year on year impact in 2014.

The above regulatory decisions had a negative year on year impact of more than £40m on both underlying revenue excluding transit and EBITDA in the quarter.

We expect Ofcom's final determination on disputes over historic Ethernet pricing in the next few months. The draft determinations proposed that we should repay up to £145m to other communications providers and if the final determination upholds the drafts, in line with our accounting policy, we would expect this payment to be treated as a specific item in revenue and free cash flow.

Specific items
Specific items resulted in a net credit after tax of £95m (Q2 2012: £63m).

One-off charges of £85m and £58m were recognised against revenue and EBITDA, respectively, following the ladder pricing decision relating to the 2011 and 2012 financial years. In 2012, a one-off charge of £410m was recognised against revenue, with an equal reduction in operating costs, in relation to a retrospective regulatory ruling in Germany.

During the quarter a profit of £121m was recognised on the disposal of a 14.1% interest in Tech Mahindra. Our remaining 9.1% stake will now be accounted for as an investment and recognised at market value on the balance sheet with changes in market value being recognised in reserves.

We make provisions for legal or constructive obligations arising from insurance, litigation and regulatory risks and this quarter we have increased our provisions by £43m having reassessed potential claims relating to certain historic matters. An impairment charge of £17m was recognised to write down our total investment in OnLive Inc., after it entered into creditor protection status. Specific operating costs also include BT Global Services restructuring charges of £17m (Q2 2012: £20m). Net interest income on pensions was £8m (Q2 2012: £49m).

The UK Finance Bill, under which the UK corporation tax rate changes from 24% to 23% on 1 April 2013, was enacted in the quarter. As a result, a specific tax credit of £78m (Q2 2012: £82m) has been recognised for the re-measurement of deferred tax balances.

Earnings per share
Adjusted EPS was 6.0p, up 7%, and reported EPS (after specific items) was 7.2p, up 13%. These are based on a weighted average number of shares in issue of 7,839m (Q2 2012: 7,762m).

Free cash flow
Normalised free cash flow was an inflow of £316m, a decrease of £247m compared with the prior year, principally reflecting the timing of customer billing and receipts, increased tax and the timing of supplier payments.

Adjusted free cash flow, which includes a £162m tax benefit from pension deficit payments (Q2 2012: £108m), was an inflow of £478m (Q2 2012: £671m).

The cash cost of specific items was £90m (Q2 2012: £42m). This comprised cash payments of £63m following the ladder pricing decision relating to the 2011 and 2012 financial years, BT Global Services restructuring costs of £16m (Q2 2012: £27m) and property rationalisation costs of £11m (Q2 2012: £15m).

Net debt and liquidity
Net debt was £9,037m at 30 September 2012, £45m lower than at 31 March 2012. The movement in the six months reflects the adjusted free cash inflow of £516m, an inflow of £85m from the exercise of employee share options, and disposal proceeds of £163m, of which £157m was from the disposal of our 14.1% interest in Tech Mahindra. These inflows were offset by dividend payments of £445m, an outflow of £154m for the purchase of 73m shares under our share buyback programme and an outflow of £123m relating to specific items.

At 30 September 2012 we had cash and current investment balances of £1.6bn and available facilities of £1.5bn providing us with a strong liquidity and funding position. During the quarter we repaid £0.3bn of debt which was funded through cash and investments. During the second half of 2013 £1.4bn of term debt and £0.6bn of short-term borrowings, including £0.3bn of commercial paper, are repayable.

During the quarter we bought back 33m shares for a total consideration of £72m. This forms part of our £300m share buyback programme this year to counteract the dilutive effect of employee share plans. In the second half of the year we expect to execute the remainder of the buyback of around £150m, which may be through a combination of continued direct market purchases and market purchases through an Employee Benefit Trust, which has the same economic effect. This increases the flexibility in managing our various share plans.

Fibre and broadband

We have passed more than 12m premises with our fibre broadband. Take-up is growing strongly and we achieved around 190,000 connections in the quarter, with over 950,000 premises now connected. We are again accelerating our fibre roll-out and now expect fibre to be available to two-thirds of UK premises during spring 2014, more than 18 months ahead of our original schedule.

We added 81,000 retail broadband customers in the quarter, representing 47% of the broadband[1] market net additions of 174,000. We added around 160,000 retail fibre broadband customers and the retail fibre customer base is now more than 875,000.

Pensions

The IAS 19 net pension position at 30 September 2012 was a deficit of £3.1bn net of tax (£4.0bn gross of tax) compared with a deficit of £1.9bn at 31 March 2012 (£2.4bn gross of tax). The higher deficit reflects the impact on liabilities of a reduction in the discount rate, partially offset by a reduction in the RPI inflation assumption, and a reduction in the long-term assumption for the CPI/RPI differential.

The IAS 19 accounting position and key assumptions for the liability valuation are provided in Note 10.

IAS 19 'Employee Benefits (revised)' will impact our pensions accounting with effect from 1 April 2013 as explained in 'Accounting standards, interpretations and amendments not yet effective' in Note 3 to the 2012 Annual Report & Form 20-F. Had this applied to the half year ended 30 September 2012, operating costs would have been £18m higher and net finance income on pensions, which is classified as a specific item, £75m lower.

Dividends

In line with our outlook for 10%–15% annual growth in dividends per share, the Board has declared an interim dividend of 3.0p per share (Q2 2012: 2.6p), an increase of 15%. The interim dividend amounts to £236m (Q2 2012: £202m) and will be paid on 4 February 2013 to shareholders on the register on 28 December 2012. The ex-dividend date is 24 December 2012. The election date for participation in BT's Dividend Investment Plan in respect of this dividend is 28 December 2012.

The final dividend for the year to 31 March 2012 of 5.7p per share, amounting to £449m, was approved at the Annual General Meeting on 11 July 2012 and was recognised in the second quarter.

Outlook

We expect an improved trend in underlying revenue excluding transit for the second half of the year compared with the first half, helped by a better trading performance. Due to the impact of the ladder pricing decision and the tougher than expected conditions facing BT Global Services we do not expect an improving trend in underlying revenue excluding transit for the year as a whole compared with the previous year.

We are making progress on reducing BT Global Services' cost base but we do not expect its EBITDA to grow this year. Despite this and the impact of ladder pricing, our cost transformation initiatives mean that at the group level we continue to expect to grow adjusted EBITDA for 2013 and to deliver normalised free cash flow that is broadly level with 2012.

In 2014 we continue to expect an improving trend in underlying revenue excluding transit, adjusted EBITDA to be broadly level with 2013 and normalised free cash flow to be above £2.2bn. We continue to expect normalised free cash flow to be around £2.5bn in 2015.

[1] DSL, LLU and fibre, excluding cable

RESULTS FOR THE HALF YEAR TO 30 SEPTEMBER 2012

Operating results overview

Our key revenue trend measure, underlying revenue excluding transit, was down 4.4% in the first half. The negative impact of the accelerated contract milestones recognised in the second quarter of last year and the Court of Appeal decision on ladder pricing together accounted for 0.9 percentage points of the decline. Excluding these, underlying revenue excluding transit was down 3.5%. Reported revenue, which includes specific items, was down 4%. Our adjusted revenue measure, which excludes specific items, was down 7% at £8,958m partly due to the negative impact of the contract milestones and ladder pricing. The adjusted revenue trend was also impacted by a £146m decline in transit revenue (including mobile termination rate reductions of £108m), a £130m negative impact from foreign exchange movements, and a £27m impact from disposals.

Underlying operating costs before depreciation and amortisation were down 9%, partly due to the costs associated with the accelerated contract milestones in the prior year. Excluding these costs, underlying operating costs before depreciation and amortisation were down 8%. This reflects the impact of our cost efficiency programmes and reduced cost of sales due to the decline in revenue, including lower payments to other telecommunications operators. Excluding transit, underlying operating costs before depreciation and amortisation were down 7%. Total operating costs before depreciation and amortisation and specific items decreased by £752m, or 11%, to £6,172m.

Adjusted EBITDA of £2,960m was up 1%. Excluding a £14m negative impact from foreign exchange movements and a £7m impact from disposals, underlying EBITDA was up 2%, or 3% excluding the impact of ladder pricing and accelerated contract milestones recognised in the prior year.

Depreciation and amortisation of £1,445m was down 3%, and with adjusted net finance expense broadly flat at £338m, adjusted profit before tax increased by 8% to £1,186m. Reported profit before tax (after specific items) was £1,186m, up 11%. Capital expenditure was down 1% at £1,218m.

Tax

The effective tax rate on profit before specific items was 22.7% (HY 2012: 24.1%).

Specific items

Specific items resulted in a net credit after tax of £99m (HY 2012: £44m). One-off charges of £85m and £58m were recognised against revenue and EBITDA, respectively, following the ladder pricing decision. In 2012, a one-off charge of £410m was recognised against revenue, with an equal reduction in operating costs, in relation to a retrospective regulatory ruling in Germany.

A profit of £121m was recognised on the disposal of a 14.1% interest in Tech Mahindra. We also disposed of a non-core business in Italy resulting in a profit of £6m. We have increased our provisions by £43m having reassessed potential claims relating to certain historic matters. An impairment charge of £17m was recognised to write down our total investment in OnLive Inc. and BT Global Services restructuring charges of £25m (HY 2012: £42m) were incurred. Net interest income on pensions was £16m (HY 2012: £99m). A specific item tax credit of £78m (HY 2012: £82m) has also been recognised for the re-measurement of deferred tax balances.

Earnings per share

Adjusted EPS was 11.7p, up 8%, and reported EPS (after specific items) was 13.0p, up 15%. These are based on a weighted average number of shares in issue of 7,813m (HY 2012: 7,759m).

Free cash flow

Normalised free cash flow was an inflow of £192m, a decrease of £572m compared with the prior year, principally reflecting the timing of supplier payments and customer receipts, including contract-related receipts in BT Global Services, and increased tax.

Adjusted free cash flow, which includes a £324m tax benefit from pension deficit payments (HY 2012: £215m), was an inflow of £516m (HY 2012: £979m). The cash cost of specific items was £123m (HY 2012: £103m). This comprised cash payments of £63m following the ladder pricing decision relating to the 2011 and 2012 financial years, BT Global Services restructuring costs of £31m (HY 2012: £73m) and property rationalisation costs of £29m (HY 2012: £28m).

Related party transactions

Transactions with related parties during the half year to 30 September 2012 are disclosed in Note 13.

Principal risks and uncertainties

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

OPERATING REVIEW

BT Global Services

	Second quarter to 30 September				Half year to 30 September			
	2012	2011	Change		**2012**	2011	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,757**	2,014	(257)	(13)	**3,487**	3,919	(432)	(11)
- underlying excluding transit				(9)				(8)
Net operating costs[1]	**1,627**	1,855	(228)	(12)	**3,238**	3,622	(384)	(11)
EBITDA	**130**	159	(29)	(18)	**249**	297	(48)	(16)
Depreciation & amortisation	**153**	190	(37)	(19)	**308**	365	(57)	(16)
Operating loss	**(23)**	(31)	8	26	**(59)**	(68)	9	13
Capital expenditure	**125**	155	(30)	(19)	**253**	272	(19)	(7)
Operating cash flow	**(171)**	(55)	(116)	n/m	**(486)**	(115)	(371)	n/m

[1] Net of other operating income
n/m = not meaningful

Revenue
Underlying revenue excluding transit decreased by 9%, or 6% excluding the impact of accelerated contract milestones recognised in the prior year, reflecting the tough conditions in Europe and the financial services sector. Revenue was down 13%, including a £67m negative impact from foreign exchange movements and a £14m impact from disposals.

Despite the tough conditions and the continued market trend towards lower contract order values and longer lead times our total order intake was £1.3bn in the quarter (Q1 2013: £1.1bn; Q2 2012: £1.4bn). In the quarter we signed contracts with leading organisations around the world including: British American Tobacco, for a global managed services agreement valued at more than $100m, covering its global wide area network infrastructure across nearly 1,000 sites in 119 countries; Surrey County Council, to provide communications infrastructure and cloud services; and the European Commission to provide network and consultancy services to all major European Commission institutions.

Operating results
Net operating costs reduced by 12% reflecting the reduction in revenue, lower contract milestone-related costs and the impact of our cost transformation programmes. Underlying operating costs excluding transit costs declined by 9%, or 6% excluding the accelerated contract milestones recognised in the prior year.

We are intensifying our efforts to transform our cost base. In the quarter we completed the closure of a major legacy network and migrated the last of the 3,500 financial services customer sites to a new platform which provides improved reliability and service. A review of our commercial arrangements and processes for managing overseas access circuits is lowering the cost of contract delivery and enabling price renegotiations for our circuits globally. We are also working with suppliers of customer premises equipment to leverage best practice and improve pricing across some of our major contracts. In addition, the migration of contract management back-office functions into shared service centres is leading to more efficient processes, lower costs and better customer service.

EBITDA decreased by 18%, or 12% excluding foreign exchange movements and disposals. Excluding the profit associated with the accelerated contract milestones recognised in the prior year, underlying EBITDA was down 5%. Operating losses were 26% lower due to a 19% reduction in depreciation and amortisation reflecting the additional depreciation and amortisation recognised in the prior year relating to some contract-specific assets and lower overall capital expenditure over the last three financial years.

Capital expenditure reduced by 19% as the prior year included additional customer contract-related capital expenditure. Operating cash flow was an outflow of £171m compared with an outflow of £55m in the prior year. The decline reflects the timing of contract-related receipts as expected, but also a delay in some debtor receipts.

BT Retail

	Second quarter to 30 September				Half year to 30 September			
	2012	2011	Change		**2012**	2011	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,791**	1,853	(62)	(3)	**3,567**	3,683	(116)	(3)
Net operating costs[1]	**1,317**	1,408	(91)	(6)	**2,617**	2,792	(175)	(6)
EBITDA	**474**	445	29	7	**950**	891	59	7
Depreciation & amortisation	**98**	102	(4)	(4)	**193**	204	(11)	(5)
Operating profit	**376**	343	33	10	**757**	687	70	10
Capital expenditure	**99**	109	(10)	(9)	**194**	203	(9)	(4)
Operating cash flow	**317**	344	(27)	(8)	**564**	638	(74)	(12)

[1] Net of other operating income

Revenue

Revenue declined by 3%, in line with the previous quarter, including an £8m negative impact from foreign exchange movements.

Consumer revenue decreased by 3%, with lower calls and lines revenue partially offset by growth in broadband, driven by an increasing contribution from fibre. This growth contributed to an increase in consumer ARPU from £350 to £355 in the quarter.

In the quarter we added 81,000 retail broadband customers, representing 47% of the DSL, LLU and fibre broadband market net additions. We added around 160,000 retail fibre broadband customers with the majority of our new broadband customers in enabled areas choosing fibre. The retail fibre customer base is now more than 875,000, representing around 14% of our retail broadband customer base. BT Wi-fi minutes trebled to reach 3bn minutes in the quarter, helped by the impact of London 2012.

BT Vision added 21,000 customers in the quarter with the customer base now over 750,000. Building on the Premier League football broadcast rights secured in June, we have reached agreements for exclusive live rights with English Premiership Rugby covering a four-year period and for the Top 14 French rugby championship. We have also reached agreements to broadcast games from the top football leagues of Italy, France, Brazil and the USA.

Business revenue showed an improving trend, and was down 3% largely due to our withdrawal from low-margin IT hardware trade sales during the second quarter last year. We have seen an improved revenue trend in voice and IT services, particularly in BT iNet, our networked IT services division.

BT Enterprises revenue decreased by 2%, reflecting slower growth in BT Conferencing and BT Expedite and declines in BT Directories and BT Redcare. We are developing our BT Conferencing propositions and have entered into a technology partnership with Dolby Laboratories Inc., which will introduce the next generation of conferencing services.

BT Ireland revenue increased by 1%, excluding the impact of foreign exchange movements. In the quarter, we agreed a wholesale deal to provide Sky with managed voice and broadband services, to support their launch in the Republic of Ireland. Our fibre roll-out in Northern Ireland has now reached over 90% coverage with more than 100,000 premises already using the service.

Operating results

Net operating costs decreased by 6% reflecting the impact of our cost transformation initiatives and reduced cost of sales associated with the lower revenue. EBITDA increased by 7% and with depreciation and amortisation decreasing by 4%, operating profit was up 10%.

Capital expenditure decreased by 9%. Operating cash flow decreased by 8% principally due to movements in working capital.

BT Wholesale

	Second quarter to 30 September				Half year to 30 September			
	2012	2011[2]	Change		**2012**	2011[2]	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**861**	982	(121)	(12)	**1,784**	1,986	(202)	(10)
- underlying excluding transit				(5)				(3)
Net operating costs[1]	**581**	677	(96)	(14)	**1,204**	1,374	(170)	(12)
EBITDA	**280**	305	(25)	(8)	**580**	612	(32)	(5)
Depreciation & amortisation	**147**	149	(2)	(1)	**295**	301	(6)	(2)
Operating profit	**133**	156	(23)	(15)	**285**	311	(26)	(8)
Capital expenditure	**57**	89	(32)	(36)	**129**	163	(34)	(21)
Operating cash flow	**200**	222	(22)	(10)	**329**	341	(12)	(4)

[1] Net of other operating income
[2] Prior year not restated for ladder pricing impact

Revenue
Underlying revenue excluding transit decreased by 5%, or 2% excluding ladder pricing (see Group results - Regulation above), primarily due to the ongoing migration of broadband lines to LLU. Revenue decreased by 12%, or 8% excluding ladder pricing, including a £79m decline in transit revenue driven by both mobile termination rate reductions and lower volumes.

Total order intake was around £300m compared with around £120m last year. In the quarter we also extended our relationship with EE to provide increased backhaul capacity at key base station sites to help underpin 4G services and to help EE launch fibre-to-the-cabinet services to their customers.

Our Mobile Ethernet Access Service is now available at more than 14,000 sites. This coverage and a number of new technological innovations reinforce our market-leading position. IP Exchange now has more than 160 wholesale customers and continues to grow rapidly with voice minutes in the quarter increasing by nearly 90% compared with last year.

Operating results
Net operating costs decreased by 14%, or 3% excluding transit costs, reflecting lower managed service contract costs and a reduction in labour costs. EBITDA decreased by 8%, or 1% excluding ladder pricing, and with depreciation and amortisation reducing by 1%, operating profit declined by 15%, or 1% excluding ladder pricing.

Capital expenditure decreased by 36% primarily due to lower spend on Ethernet as a result of improvements in capacity management and lower spend on our Wholesale Broadband Connect network. Operating cash flow decreased by 10% principally due to movements in working capital.

Openreach

	Second quarter to 30 September				Half year to 30 September			
	2012	2011	Change		**2012**	2011	Change	
	£m	£m	£m	%	**£m**	£m	£m	%
Revenue	**1,269**	1,280	(11)	(1)	**2,526**	2,535	(9)	0
Net operating costs[1]	**687**	713	(26)	(4)	**1,391**	1,430	(39)	(3)
EBITDA	**582**	567	15	3	**1,135**	1,105	30	3
Depreciation & amortisation	**243**	232	11	5	**487**	464	23	5
Operating profit	**339**	335	4	1	**648**	641	7	1
Capital expenditure	**278**	251	27	11	**564**	504	60	12
Operating cash flow	**246**	350	(104)	(30)	**455**	527	(72)	(14)

[1] Net of other operating income

Revenue
Revenue was down 1%, with growth in Ethernet and fibre largely offsetting the impact of regulatory price reductions for WLR, LLU and ISDN30 products.

The physical line base declined by 38,000 in the quarter due to the prolonged adverse weather conditions which have resulted in more resources being deployed on repair activity and an increase in provision lead times.

Our fibre broadband is now available to over 12m premises. We achieved around 190,000 connections in the quarter, with over 950,000 premises now connected. We now expect fibre to be available to two-thirds of UK premises during spring 2014, more than 18 months ahead of our original schedule. We are recruiting more than 1,000 engineers in 2012 to help deliver this and reduce our provision lead times.

In the quarter we won the Broadband Delivery UK regional bids to deploy fibre broadband in North Yorkshire and Surrey. We have already started work in North Yorkshire where the first customers are expected to be connected within six months of signing the contract. We were also awarded preferred bidder status in Cumbria, Suffolk and Norfolk.

Operating results
Net operating costs reduced by 4%, partly due to lower leaver costs, despite significant additional costs relating to the adverse weather. EBITDA increased by 3% and with depreciation and amortisation increasing by 5%, reflecting the investment in fibre broadband and Ethernet, operating profit was up 1%.

Capital expenditure increased by 11% reflecting investment in our fibre roll-out programme. Operating cash flow decreased by 30% due to the timing of debtor receipts and the increased capital expenditure.

FINANCIAL STATEMENTS

Group income statement

For the second quarter to 30 September 2012

	Note	Before specific items £m	Specific items £m	Total £m
Revenue	2	4,474	(85)	**4,389**
Other operating income		86	-	**86**
Operating costs	3	(3,785)	(50)	**(3,835)**
Operating profit		775	(135)	**640**
Finance expense		(174)	(494)	**(668)**
Finance income		5	502	**507**
Net finance expense		(169)	8	**(161)**
Share of post tax profits of associates and joint ventures		2	-	**2**
Profit on disposal of interest in associate		-	121	**121**
Profit before tax		608	(6)	**602**
Tax		(138)	101	**(37)**
Profit for the period		470	95	**565**
Attributable to:				
Equity shareholders		469	95	**564**
Non-controlling interests		1	-	**1**
Earnings per share				
- basic	9	6.0p		**7.2p**
- diluted		5.7p		**6.9p**

For the second quarter to 30 September 2011

	Note	Before specific items £m	Specific items £m	Total £m
Revenue	2	4,894	(410)	**4,484**
Other operating income		99	(19)	**80**
Operating costs	3	(4,251)	362	**(3,889)**
Operating profit		742	(67)	**675**
Finance expense		(175)	(523)	**(698)**
Finance income		1	572	**573**
Net finance expense		(174)	49	**(125)**
Share of post tax profits of associates and joint ventures		2	-	**2**
Profit before tax		570	(18)	**552**
Tax		(138)	81	**(57)**
Profit for the period		432	63	**495**
Attributable to:				
Equity shareholders		431	63	**494**
Non-controlling interests		1	-	**1**
Earnings per share				
- basic	9	5.6p		**6.4p**
- diluted		5.3p		**6.0p**

Group income statement
For the half year to 30 September 2012

	Note	Before specific items £m	Specific items £m	Total £m
Revenue	2	8,958	(85)	**8,873**
Other operating income		174	7	**181**
Operating costs	3	(7,617)	(59)	**(7,676)**
Operating profit		1,515	(137)	**1,378**
Finance expense		(346)	(987)	**(1,333)**
Finance income		8	1,003	**1,011**
Net finance expense		(338)	16	**(322)**
Share of post tax profits of associates and joint ventures		9	-	**9**
Profit on disposal of interest in associate		-	121	**121**
Profit before tax		1,186	-	**1,186**
Tax		(269)	99	**(170)**
Profit for the period		917	99	**1,016**
Attributable to:				
Equity shareholders		916	99	**1,015**
Non-controlling interests		1	-	**1**
Earnings per share				
- basic	9	11.7p		**13.0p**
- diluted		11.2p		**12.4p**

Group income statement
For the half year to 30 September 2011

	Note	Before specific items £m	Specific items £m	Total £m
Revenue	2	9,658	(410)	**9,248**
Other operating income		197	(19)	**178**
Operating costs	3	(8,416)	296	**(8,120)**
Operating profit		1,439	(133)	**1,306**
Finance expense		(346)	(1,046)	**(1,392)**
Finance income		4	1,145	**1,149**
Net finance expense		(342)	99	**(243)**
Share of post tax profits of associates and joint ventures		6	-	**6**
Profit before tax		1,103	(34)	**1,069**
Tax		(267)	78	**(189)**
Profit for the period		836	44	**880**
Attributable to:				
Equity shareholders		835	44	**879**
Non-controlling interests		1	-	**1**
Earnings per share				
- basic	9	10.8p		**11.3p**
- diluted		10.2p		**10.7p**

Group statement of comprehensive income
For the second quarter and half year to 30 September

	Second quarter to 30 September		Half year to 30 September	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Profit for the period	**565**	495	**1,016**	880
Other comprehensive income (loss)				
Actuarial movements on defined benefit pension schemes	**(1,507)**	(1,017)	**(1,479)**	(1,550)
Exchange losses on translation of foreign operations	**(34)**	(26)	**(56)**	(10)
Fair value movements on cash flow hedges				
- fair value (losses) gains	**(304)**	165	**(246)**	212
- recycled and reported in net profit	**157**	66	**187**	32
Movement in available for sale reserve	**30**	(10)	**30**	(10)
Tax on components of other comprehensive income	**365**	196	**296**	336
Other comprehensive loss for the period, net of tax	**(1,293)**	(626)	**(1,268)**	(990)
Total comprehensive loss for the period	**(728)**	(131)	**(252)**	(110)
Attributable to:				
Equity shareholders	**(727)**	(134)	**(251)**	(113)
Non-controlling interests	**(1)**	3	**(1)**	3
	(728)	(131)	**(252)**	(110)

Group statement of changes in equity
For the half year to 30 September 2012

	Share capital	**Reserves**	**Non-controlling interests**	**Total equity**
	£m	**£m**	**£m**	**£m**
At 1 April 2012	**408**	**889**	**11**	**1,308**
Total comprehensive loss for the period	**-**	**(251)**	**(1)**	**(252)**
Share-based payment	**-**	**39**	**-**	**39**
Net movement on treasury shares	**-**	**(69)**	**-**	**(69)**
Dividends on ordinary shares	**-**	**(449)**	**-**	**(449)**
At 30 September 2012	**408**	**159**	**10**	**577**

For the half year to 30 September 2011

	£m	£m	£m	£m
At 1 April 2011	408	1,517	26	1,951
Total comprehensive (loss) income for the period	-	(113)	3	(110)
Share-based payment	-	40	-	40
Net movement on treasury shares	-	8	-	8
Dividends on ordinary shares	-	(389)	-	(389)
Transactions with equity holders	-	-	(17)	(17)
At 30 September 2011	408	1,063	12	1,483

Group cash flow statement
For the second quarter and half year to 30 September

	Second quarter to 30 September		Half year to 30 September	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Profit before tax	**602**	552	**1,186**	1,069
Depreciation and amortisation	**722**	753	**1,445**	1,492
Net finance expense	**161**	125	**322**	243
Loss (profit) on disposal of subsidiary	**-**	19	**(7)**	19
Profit on disposal of associate	**(121)**	-	**(121)**	-
Associates and joint ventures	**(2)**	(2)	**(9)**	(6)
Share-based payment	**19**	19	**39**	40
Increase in working capital	**(247)**	(77)	**(855)**	(462)
Provisions, pensions and other non-cash movements	**20**	21	**41**	123
Cash generated from operations	**1,154**	1,410	**2,041**	2,518
Tax paid	**(19)**	(36)	**(28)**	(65)
Net cash inflow from operating activities	**1,135**	1,374	**2,013**	2,453
Cash flow from investing activities				
Interest received	**3**	1	**5**	2
Dividends received from associates	**1**	4	**1**	4
Proceeds on disposal of property, plant and equipment	**5**	7	**8**	10
Acquisition of subsidiaries, net of cash acquired	**(6)**	(5)	**(6)**	(5)
Sale of subsidiaries, net of bank overdrafts	**-**	13	**17**	13
Acquisition of joint ventures	**(4)**	-	**(5)**	-
Disposal of associates and joint ventures	**157**	-	**157**	7
Purchases of property, plant and equipment and software	**(624)**	(625)	**(1,288)**	(1,246)
Sale of non-current asset investments	**-**	-	**1**	-
Purchase of current financial assets	**(2,144)**	(1,877)	**(4,707)**	(3,718)
Sale of current financial assets	**2,418**	1,555	**3,956**	3,036
Net cash used in investing activities	**(194)**	(927)	**(1,861)**	(1,897)
Cash flow from financing activities				
Interest paid	**(132)**	(132)	**(347)**	(347)
Equity dividends paid	**(444)**	(384)	**(445)**	(385)
New borrowings	**1**	**-**	**796**	-
Repayment of borrowings	**(303)**	-	**(305)**	(14)
Repayment of finance lease liabilities	**(6)**	(2)	**(11)**	(2)
Cash flows from derivatives related to net debt	**(91)**	216	**-**	271
Net proceeds (repayment) of commercial paper	**6**	(16)	**219**	(69)
Proceeds on issue of treasury shares	**81**	8	**85**	8
Repurchase of ordinary share capital	**(72)**	-	**(154)**	-
Net cash used in financing activities	**(960)**	(310)	**(162)**	(538)
Effect of exchange rate movements	**(3)**	(1)	**(7)**	1
Net (decrease) increase in cash and cash equivalents	**(22)**	136	**(17)**	19
Cash and cash equivalents, net of bank overdrafts, at beginning of period	**328**	208	**323**	325
Cash and cash equivalents, net of bank overdrafts, at end of period	**306**	344	**306**	344

Group balance sheet

	30 September 2012 £m	30 September 2011 £m	31 March 2012 £m
Non-current assets			
Intangible assets	**2,977**	3,240	3,127
Property, plant and equipment	**14,235**	14,475	14,388
Derivative financial instruments	**937**	1,153	886
Investments	**181**	60	68
Associates and joint ventures	**30**	158	153
Trade and other receivables	**188**	223	169
Deferred tax assets	**911**	862	626
	19,459	20,171	19,417
Current assets			
Inventories	**110**	116	104
Trade and other receivables	**3,193**	3,568	3,307
Current tax receivables	**-**	-	139
Derivative financial instruments	**82**	89	137
Investments	**1,265**	692	513
Cash and cash equivalents	**311**	350	331
	4,961	4,815	4,531
Current liabilities			
Loans and other borrowings	**2,700**	939	2,887
Derivative financial instruments	**125**	57	89
Trade and other payables	**4,956**	5,809	5,962
Current tax liabilities	**141**	419	66
Provisions	**263**	91	251
	8,185	7,315	9,255
Total assets less current liabilities	**16,235**	17,671	14,693
Non-current liabilities			
Loans and other borrowings	**8,291**	9,131	7,599
Derivative financial instruments	**948**	723	757
Retirement benefit obligations	**4,001**	3,349	2,448
Other payables	**863**	898	875
Deferred tax liabilities	**1,016**	1,190	1,100
Provisions	**539**	897	606
	15,658	16,188	13,385
Equity			
Ordinary shares	**408**	408	408
Reserves	**159**	1,063	889
Total parent shareholders' equity	**567**	1,471	1,297
Non-controlling interests	**10**	12	11
Total equity	**577**	1,483	1,308
	16,235	17,671	14,693

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of preparation and accounting policies

These condensed consolidated financial statements (‘the financial statements’) comprise the financial results of BT Group plc for the quarters and half years to 30 September 2012 and 2011 together with the audited balance sheet at 31 March 2012. The financial statements for the half year to 30 September 2012 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 and Transparency Rules (DTR) of the Financial Services 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 financial statements for the year to 31 March 2012.

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half year financial statements.

Except as described below, the financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2012 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. These financial statements do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year to 31 March 2012 were approved by the Board of Directors on 9 May 2012, published on 25 May 2012 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement under Section 498 of the Companies Act 2006.

Government grants

Our policy for the recognition of government grants was changed from 1 April 2012. Under the new policy, capital expenditure and operating costs are recognised ‘net’ of government grants receivable. The net presentation is considered a more appropriate policy than the previous ‘gross’ presentation as it better presents the incremental costs to the business. The new policy has been applied prospectively and comparative financial information has not been restated on the basis of the immaterial impact of grant funding on prior period financial information.

2 Operating results – by line of business[1]

	External revenue £m	Internal revenue £m	Group revenue £m	EBITDA £m	Operating profit (loss) £m
Second quarter to 30 September 2012					
BT Global Services	**1,757**	**-**	**1,757**	**130**	**(23)**
BT Retail	**1,657**	**134**	**1,791**	**474**	**376**
BT Wholesale	**616**	**245**	**861**	**280**	**133**
Openreach	**433**	**836**	**1,269**	**582**	**339**
Other and intra-group items[2]	**11**	**(1,215)**	**(1,204)**	**31**	**(50)**
Total	**4,474**	**-**	**4,474**	**1,497**	**775**
Second quarter to 30 September 2011					
BT Global Services	2,014	-	2,014	159	(31)
BT Retail	1,729	124	1,853	445	343
BT Wholesale	737	245	982	305	156
Openreach	404	876	1,280	567	335
Other and intra-group items[2]	10	(1,245)	(1,235)	19	(61)
Total	4,894	-	4,894	1,495	742
Half year to 30 September 2012					
BT Global Services	**3,487**	**-**	**3,487**	**249**	**(59)**
BT Retail	**3,303**	**264**	**3,567**	**950**	**757**
BT Wholesale	**1,293**	**491**	**1,784**	**580**	**285**
Openreach	**848**	**1,678**	**2,526**	**1,135**	**648**
Other and intra-group items[2]	**27**	**(2,433)**	**(2,406)**	**46**	**(116)**
Total	**8,958**	**-**	**8,958**	**2,960**	**1,515**
Half year to 30 September 2011					
BT Global Services	3,919	-	3,919	297	(68)
BT Retail	3,437	246	3,683	891	687
BT Wholesale	1,496	490	1,986	612	311
Openreach	786	1,749	2,535	1,105	641
Other and intra-group items[2]	20	(2,485)	(2,465)	26	(132)
Total	9,658	-	9,658	2,931	1,439

[1] Before specific items.
[2] Elimination of intra-group revenue, which is included in the total revenue of the originating business

3 Operating costs

	Second quarter to 30 September		Half year to 30 September	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Direct labour costs	**1,173**	1,213	**2,356**	2,400
Indirect labour costs	**214**	232	**435**	474
Leaver costs	**16**	29	**39**	57
Total labour costs	**1,403**	1,474	**2,830**	2,931
Capitalised labour	**(243)**	(242)	**(480)**	(483)
Net labour costs	**1,160**	1,232	**2,350**	2,448
Payments to telecommunications operators	**653**	786	**1,350**	1,611
Property and energy costs	**259**	270	**520**	543
Network operating and IT costs	**156**	163	**312**	333
Other costs	**835**	1,047	**1,640**	1,989
Operating costs before depreciation and specific items	**3,063**	3,498	**6,172**	6,924
Depreciation and amortisation	**722**	753	**1,445**	1,492
Total operating costs before specific items	**3,785**	4,251	**7,617**	8,416
Specific items (Note 4)	**50**	(362)	**59**	(296)
Total operating costs	**3,835**	3,889	**7,676**	8,120

4 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'). This is consistent with the way that financial performance is measured by management and assists in providing a meaningful analysis of the trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies.

	Second quarter to 30 September		Half year to 30 September	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Specific revenue				
Retrospective regulatory rulings	**85**	410	**85**	410
Specific other operating income				
Loss (profit) on disposal of subsidiary	**-**	19	**(7)**	19
Retrospective regulatory rulings	**(27)**	(410)	**(27)**	(410)
BT Global Services restructuring charges	**17**	20	**25**	42
Property rationalisation charges	**-**	28	**-**	72
Provision for claims	**43**	-	**43**	-
Impairment charge	**17**	-	**18**	-
Specific operating costs	**50**	(362)	**59**	(296)
EBITDA impact (Note 7)	**135**	67	**137**	133
Net interest income on pensions	**(8)**	(49)	**(16)**	(99)
Profit on disposal of interest in associate	**(121)**	-	**(121)**	-
Net specific items charge before tax	**6**	18	**-**	34
Tax (credit) charge on specific items before tax	**(23)**	1	**(21)**	4
Tax credit on re-measurement of deferred tax	**(78)**	(82)	**(78)**	(82)
Net specific items credit after tax	**(95)**	(63)	**(99)**	(44)

5 Free cash flow

Free cash flow is not a measure defined under IFRS but is a key indicator used by management to assess operational performance.

	Second quarter to 30 September		Half year to 30 September	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Cash generated from operations	**1,154**	1,410	**2,041**	2,518
Tax paid	**(19)**	(36)	**(28)**	(65)
Net cash inflow from operating activities	**1,135**	1,374	**2,013**	2,453
Included in cash flows from investing activities				
Net purchase of property, plant, equipment and software	**(619)**	(618)	**(1,280)**	(1,236)
Dividends received from associates	**1**	4	**1**	4
Interest received	**3**	1	**5**	2
Sale of non-current asset investments	**-**	-	**1**	-
Included in cash flows from financing activities				
Interest paid	**(132)**	(132)	**(347)**	(347)
Free cash flow	**388**	629	**393**	876
Net cash outflow from specific items	**90**	42	**123**	103
Adjusted free cash flow	**478**	671	**516**	979
Cash tax benefit of pension deficit payments	**(162)**	(108)	**(324)**	(215)
Normalised free cash flow	**316**	563	**192**	764

6 Net debt

Net debt is not a measure defined under IFRS but is a key indicator used by management to assess operational performance.

	30 September 2012	30 September 2011	31 March 2012
	£m	£m	£m
Loans and other borrowings[1]	**10,991**	10,070	10,486
Cash and cash equivalents	**(311)**	(350)	(331)
Investments	**(1,265)**	(692)	(513)
	9,415	9,028	9,642
Adjustments:			
To re-translate currency denominated balances at swapped rates where hedged	**(34)**	(400)	(228)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	**(344)**	(311)	(332)
Net debt	**9,037**	8,317	9,082

[1] Includes overdrafts of £5m at 30 September 2012 (30 September 2011: £6m; 31 March 2012: £8m)

7 Reconciliation of earnings before interest, taxation, depreciation and amortisation

Earnings before interest, taxation, 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 reported profit before tax to adjusted EBITDA is provided below.

	Second quarter to 30 September		**Half year to 30 September**	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Reported profit before tax	**602**	552	**1,186**	1,069
Share of post tax profits of associates and joint ventures	**(2)**	(2)	**(9)**	(6)
Profit on disposal of interest in associate	**(121)**	-	**(121)**	-
Net finance expense	**161**	125	**322**	243
Operating profit	**640**	675	**1,378**	1,306
Depreciation and amortisation	**722**	753	**1,445**	1,492
Reported EBITDA	**1,362**	1,428	**2,823**	2,798
Specific items (Note 4)	**135**	67	**137**	133
Adjusted EBITDA	**1,497**	1,495	**2,960**	2,931

8 Reconciliation of adjusted profit before tax

	Second quarter to 30 September		**Half year to 30 September**	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Reported profit before tax	**602**	552	**1,186**	1,069
Specific items (Note 4)	**6**	18	**-**	34
Adjusted profit before tax	**608**	570	**1,186**	1,103

9 Reconciliation of adjusted earnings per share

	Second quarter to 30 September		**Half year to 30 September**	
	2012	2011	**2012**	2011
	pence per share		pence per share	
Reported basic earnings per share	**7.2**	6.4	**13.0**	11.3
Per share impact of specific items	**(1.2)**	(0.8)	**(1.3)**	(0.5)
Adjusted earnings per share	**6.0**	5.6	**11.7**	10.8

10 Pensions

	30 September 2012	31 March 2012
	£bn	£bn
IAS 19 liabilities - BTPS	**(42.0)**	(40.6)
Assets - BTPS	**38.2**	38.3
Other schemes	**(0.2)**	(0.1)
IAS 19 deficit, gross of tax	**(4.0)**	(2.4)
IAS 19 deficit, net of tax	**(3.1)**	(1.9)
Discount rate (nominal)	4.25%	4.95%
Discount rate (real)	1.86%	1.84%
RPI inflation	2.35%	3.05%
CPI inflation	0.75% below RPI for three years and 1.00% below RPI thereafter	0.75% below RPI for three years and 1.20% below RPI thereafter

11 Share capital

In the half year to 30 September 2012 164m shares (HY 2012: 11m) were issued from treasury to satisfy obligations under all-employee and executive share plans at a weighted average cost of £454m (HY 2012: £38m).

12 Capital commitments

Capital expenditure for property, plant and equipment and software contracted for at the balance sheet date but not yet incurred was £386m (31 March 2012: £433m; 30 September 2011: £489m).

13 Related party transactions

During the half year to 30 September 2012, the group purchased services in the normal course of business and on an arm's length basis from its associate, Tech Mahindra Limited. The value of services purchased was £99m (HY 2012: £127m). As a result of the disposal of a 14.1% interest in Tech Mahindra during the second quarter, the group's interest reduced to 9.1% and accordingly ceased to be accounted for as an associate.

14 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 32 to 37 of the 2012 Annual Report & Form 20-F and are summarised below. All of them have the potential to impact our business, revenue, profits, assets, liquidity and capital resources adversely.

- The risk that there could be a significant failure or interruption of data transfer as a result of factors outside our control
- The risks associated with complex and high value customer contracts
- The risks associated with a significant funding obligation in relation to a defined benefit pension scheme
- The risks arising from operating in markets which are characterised by high levels of competition
- The risks associated with some of our activities being subject to significant price and other regulatory controls
- The risks associated with failing to comply with a wide range of local and international legislative requirements
- The risk there could be a failure of any of our critical suppliers upon which we are dependent for the delivery of goods or services

There have been no significant changes to the principal risks and uncertainties in the half year to 30 September 2012, some or all of which have the potential to impact our results or financial position during the remaining six months of the financial year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Interim Management Report includes a fair review of the information required by Rules 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

The names and functions of the BT Group plc board can be found at:
http://www.btplc.com/thegroup/ourcompany/theboard/ourboard/index.htm

By order of the Board

Ian Livingston	Tony Chanmugam
Chief Executive	Group Finance Director

31 October 2012

Independent review report to BT Group plc on the half year interim financial information

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half year financial report for the six months ended 30 September 2012, which comprises the Group income statement, the Group statement of comprehensive income, the Group statement of changes in equity, the Group cash flow statement, the Group balance sheet and related notes. We have read the other information contained in the half year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half year financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in Note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half year financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half year financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 United Kingdom. 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. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) 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.

Conclusion

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 year financial report for the six months ended 30 September 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London
31 October 2012

Notes:
The maintenance and integrity of the group's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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: current and future years' outlook, including revenue trends, EBITDA and normalised free cash flow; the impact of regulation; continuing cost transformation in our BT Global Services business; progressive dividends; our fibre roll-out programme; effective tax rate; and liquidity and funding.

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: material adverse changes in economic conditions in the markets served by BT; future regulatory actions and conditions in BT's operating areas, including competition from others; selection by BT of the appropriate trading and marketing models for its products and services; fluctuations in foreign currency exchange rates and interest rates; technological innovations, including the cost of developing new products, networks and solutions and the need to increase expenditures for improving the quality of service; prolonged adverse weather conditions resulting in a material increase in overtime, staff or other costs; developments in the convergence of technologies; the anticipated benefits and advantages of new technologies, products and services, and demand for bundled services, not being realised; the timing of entry and profitability of BT in certain communications markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the BT Global Services restructuring programme not being achieved; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.