# Financial results

**BT Group plc**

## Results for the second quarter to 30 September 2017

**2 November 2017**

BT Group plc (BT.L) today announced its results for the second quarter and half year to 30 September 2017.

### Key developments for the quarter

Strategic:
- Bringing together BT Consumer and EE is progressing well under new leadership team
- Openreach consultation identified broad industry support and key enablers for a large-scale FTTP broadband network
- Voluntary offer made to deliver the Government's goal for universal broadband access
- Continued improvement in customer experience metrics; Group NPS[1] up 3.8 points and Right First Time up 2.3%
- Transformation programme and restructuring initiatives on track
- Review of future pension benefits continues and we expect to consult with affected employees on proposed changes shortly

Operational:
- BT Consumer revenue generating units per customer increased 3% to 2.01; monthly mobile ARPU up 9% to £20.9
- Mobile postpaid net subscriber additions of 279,000, with low churn of 1.2%
- Openreach fibre connections remain high at 505,000, with fibre broadband now passing 27.1m UK premises
- Order intake up 22% to £3.8bn for Business and Public Sector and up 32% to £1.8bn for Wholesale and Ventures, on a 12-month rolling basis
- Taking robust actions to improve the performance of Global Services

Financial:
- Reported revenues down 1% to £5,949m and underlying[2] revenue down 1.5%
- Adjusted[2] EBITDA decreased 4% to £1,811m, reflecting investment in sports rights and customer experience, along with higher pension costs, business rates and decline in Global Services partly offset by cost savings
- Net cash inflow from operating activities of £1,270m down £464m, and normalised free cash flow[2] of £689m down £205m due to working capital phasing and higher capital expenditure
- Interim dividend for future years set at 30% of prior year's full year dividend. Interim dividend for this year held flat at 4.85 pence per share. Progressive dividend policy unchanged
- Full year outlook maintained

**Gavin Patterson, Chief Executive, commenting on the results, said**

*"Our first half results are in line with our expectations as encouraging results in our consumer facing lines of business, notably EE, helped offset ongoing challenges in our enterprise divisions, in particular Global Services. Given our underlying business performance, we are maintaining our outlook for the year.*

*"As the UK's leading converged telecommunications provider we continue to make positive progress on all our strategic priorities. Improving customer experience is critical to our success and we have seen continued positive progress underpinned by investments in operational improvements, increased network quality and customer-centric product development. Our integration and restructuring programmes are also on track to deliver run-rate savings of £250m and £150m respectively by the end of this year. We are working closely with the UK Government, Ofcom and our Communications Provider partners to find the right solutions to accelerate the deployment of fibre and our universal broadband commitment. We are committed to delivering ultrafast speeds to 12 million premises by the end of 2020.*

*"From next year the interim dividend per share will be fixed at 30% of the prior year's full year dividend. However, in this transitional year, we are proposing to hold our interim dividend at 4.85 pence per share. Our progressive dividend policy remains unchanged."*

| | Second quarter to 30 September 2017 | | Half year to 30 September 2017 | |
|---|---|---|---|---|
| | **£m** | Change[4] | **£m** | Change[4] |
| **Reported measures** | | | | |
| Revenue | **5,949** | (1)% | **11,786** | - |
| Profit before tax | **666** | (1)% | **1,084** | (22)% |
| Basic earnings per share | **5.3p** | (7)% | **8.2p** | (29)% |
| Net cash inflow from operating activities | **1,270** | £(464)m | **2,585** | £(483)m |
| Interim dividend | | | **4.85p** | - |
| **Adjusted measures** | | | | |
| Change in underlying[2] revenue excluding transit | | (1.5)% | | (0.7)% |
| Adjusted[2] EBITDA | **1,811** | (4)% | **3,596** | (3)% |
| Change in underlying[2] EBITDA | | (4.1)% | | (3.3)% |
| Adjusted[2] profit before tax | **789** | (10)% | **1,580** | (6)% |
| Adjusted[2] basic earnings per share | **6.4p** | (11)% | **12.7p** | (8)% |
| Normalised free cash flow[2] | **689** | £(205)m | **1,245** | £(97)m |
| Net debt[2] | | | **9,520** | £(47)m[3] |

[1] Group NPS measures Net Promoter Score in our retail businesses and Net Satisfaction in our wholesale businesses

[2] See Glossary on page 2

[3] Revised, see note 1 to the condensed consolidated financial statements

[4] Measured against the comparative period in the prior year


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## Group results for the second quarter to 30 September 2017

| | Second quarter to 30 September | | | Half year to 30 September | | |
|---|---|---|---|---|---|---|
| | **2017 £m** | 2016 £m | Change % | **2017 £m** | 2016 £m | Change % |
| **Revenue** | | | | | | |
| - reported | **5,949** | 6,007 | (1) | **11,786** | 11,782 | - |
| - adjusted[1] | **5,951** | 6,053 | (2) | **11,800** | 11,828 | - |
| - change in underlying[1] revenue excluding transit | | | (1.5) | | | (0.7) |
| **EBITDA** | | | | | | |
| - reported | **1,742** | 1,739 | - | **3,209** | 3,524 | (9) |
| - adjusted[1] | **1,811** | 1,888 | (4) | **3,596** | 3,706 | (3) |
| - change in underlying[1] EBITDA | | | (4.1) | | | (3.3) |
| **Operating profit** | | | | | | |
| - reported | **850** | 870 | (2) | **1,452** | 1,800 | (19) |
| - adjusted[1] | **919** | 1,019 | (10) | **1,839** | 1,982 | (7) |
| **Profit before tax** | | | | | | |
| - reported | **666** | 671 | (1) | **1,084** | 1,388 | (22) |
| - adjusted[1] | **789** | 873 | (10) | **1,580** | 1,675 | (6) |
| **Basic earnings per share** | | | | | | |
| - reported | **5.3p** | 5.7p | (7) | **8.2p** | 11.6p | (29) |
| - adjusted[1] | **6.4p** | 7.2p | (11) | **12.7p** | 13.8p | (8) |
| **Interim dividend** | | | | **4.85p** | 4.85p | - |
| **Capital expenditure** | **858** | 803 | 7 | **1,693** | 1,580 | 7 |
| **Normalised free cash flow[1]** | **689** | 894 | (23) | **1,245** | 1,342 | (7) |
| **Net debt[1]** | | | | **9,520** | 9,567[2] | £(47)m |

## Line of business results

| | Adjusted[1] revenue | | | Adjusted[1] EBITDA | | | Normalised free cash flow[1] | | |
|---|---|---|---|---|---|---|---|---|---|
| **Second quarter to 30 September** | **2017 £m** | 2016 £m | Change % | **2017 £m** | 2016 £m | Change % | **2017 £m** | 2016 £m | Change % |
| BT Consumer | **1,261** | 1,251 | 1 | **245** | 252 | (3) | **23** | 90 | (74) |
| EE | **1,326** | 1,277 | 4 | **326** | 282 | 16 | **224** | 135 | 66 |
| Business and Public Sector | **1,153** | 1,177 | (2) | **358** | 387 | (7) | **270** | 306 | (12) |
| Global Services | **1,262** | 1,409 | (10) | **81** | 132 | (39) | **46** | 58 | (21) |
| Wholesale and Ventures | **505** | 522 | (3) | **187** | 204 | (8) | **120** | 155 | (23) |
| Openreach | **1,281** | 1,273 | 1 | **624** | 630 | (1) | **184** | 456 | (60) |
| Other | **3** | 1 | n/m | **(10)** | 1 | n/m | **(178)** | (306) | (42) |
| Intra-group items | **(840)** | (857) | (2) | **-** | - | - | **-** | - | - |
| **Total** | **5,951** | 6,053 | (2) | **1,811** | 1,888 | (4) | **689** | 894 | (23) |

[1] See Glossary
[2] Revised, see note 1 to the condensed consolidated financial statements
n/m = not meaningful

## Glossary of alternative performance measures

| | |
|---|---|
| **Adjusted** | Before specific items |
| **Free cash flow** | Cash generated from operations (after capital expenditure) excluding pension deficit payments and after interest, tax and non-current asset investments |
| **Net debt** | Loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Currency denominated balances within net debt are translated to Sterling at swapped rates where hedged |
| **Normalised free cash flow** | Free cash flow before specific items and the cash tax benefit of pension deficit payments |
| **Specific items** | Items that in management's judgement need to be disclosed separately by virtue of their size, nature or incidence. Further information is provided in note 4 on page 28 |
| **Underlying** | Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals. Further information is provided in note 2 on page 35 |

Reconciliations to the most directly comparable IFRS measures are in Additional Information on pages 35 to 37. Our commentary focuses on the trading results on an adjusted basis. Unless otherwise stated in the commentary, revenue, operating costs, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, profit before tax, net finance expense, earnings per share (EPS) and normalised free cash flow are measured before specific items. Further information is provided in note 1 on page 35.

BT Group plc

# Overview of the second quarter to 30 September 2017

## OVERVIEW

Our second quarter has seen a decline in reported revenue of 1% to £5,949m driven mainly by challenges in our enterprise businesses, partially offset by the strong performance in EE. In Global Services our revenue declined 10% due to ongoing challenging market conditions and also lower IP Exchange volumes and equipment sales in line with our strategy to reduce low margin business. Our main measure of the group's revenue trend, underlying[1] revenue excluding transit, was down 1.5%. Adjusted[1] EBITDA of £1,811m was down 4%, reflecting investment in sports rights and customer experience, along with higher pension costs, business rates and decline in Global Services partly offset by cost savings. Reported profit before tax for the second quarter was down 1% at £666m. Net cash inflow from operating activities was down £464m at £1,270m. Normalised free cash flow[1] was £689m, down 23% mainly as a result of working capital phasing and higher capital expenditure.

## STRATEGIC AND OPERATIONAL UPDATE

### Deliver great customer experience

Our strategy emphasises the importance of customer experience in driving growth. Delivering a consistent and reliable service is central to customer experience and we have seen continued improvement in our Right First Time[2] performance, increasing by 2.3% compared to the 2016/17 baseline. Our customers' overall perception of BT continues to improve, with Group NPS[3] increasing by 3.8 points over the same period. Our progressive growth in customer experience is underpinned by investing in operational improvements, increased network quality and customer-centric product development.

Operational improvements have led to EE recording its lowest ever level of customer complaints, and joint lowest for mobile network operators, as reported by Ofcom in its latest report, down 25% year on year. We unveiled four new EE 'Showcase' stores in London and Nottingham to offer a more personal and immersive experience. Within BT Consumer, while further improvement is needed, we are pleased to see that Ofcom's complaints data shows a reduction of 25% for landlines and 18% for broadband when compared to the previous quarter.

Our focus on improving network quality has led to copper network fault volumes being 2% lower than the first half of last year, continuing the recent reversal of the long term trend of rising fault levels. When our customers do experience problems with our network, we have maintained a consistently high level of on-time repair performance of over 80%.

Use of our digital channels continues to grow with the My EE app now beyond 10m downloads. We have developed and launched a new Business App to help customers manage their BT Business account. And we have launched the new BT TV app which is free to all BT TV customers, with many great features including access to BT TV premium channels and allowing customers to set recordings on the move.

### Invest for growth

*Mobility*

Our investment in 4G continues, with our geographic coverage now reaching 86% of the UK's landmass. We have announced that we will upgrade more than 600 sites by the end of our financial year through converting 2G spectrum to provide airwaves into superfast 4G speeds. The sites will power the next wave of mobile devices to hit the UK market, doubling the data upload speeds from the current maximum of 50Mbps to up to 100Mbps on more than 900 sites across the UK.

On 11 July, Ofcom issued its decisions on competition issues for the forthcoming auction of spectrum in the 2.3GHz and 3.4GHz bands. As a consequence of Ofcom's proposed caps on the amount of spectrum any one operator can buy, we would not be able to bid for spectrum in the 2.3GHz band, and would be restricted to no more than 85MHz in the 3.4GHz band. As a result of Three's challenge to the proposals, we also made the difficult decision to challenge the proposals and expect a court hearing in December.

Our mobile base is now 29.7m. We added 279,000 postpaid mobile customers, taking the postpaid customer base to 17.3m. The number of prepaid customers reduced by 260,000, in line with industry trends, taking the base to 6.3m. Our 4G customer base reached 19.4m.

[1] See Glossary on page 2
[2] Measured against Group-wide RFT index
[3] Group NPS measures Net Promoter Score in our retail businesses and Net Satisfaction in our wholesale businesses

*Broadband*

We made a voluntary offer to deliver the Government's goal for universal broadband access at a minimum speed of 10Mbps. This would involve us investing an estimated £450m to £600m depending on the final technology solution and aims to ensure that all UK premises can get faster broadband, even in the hardest to reach parts of the UK. The Government is now considering our offer alongside a consultation on the regulatory Universal Service Obligation.

Openreach's consultation on the investment case for a large-scale FTTP (Fibre-to-the-Premises) broadband network across the UK closed on 29 September. There is broad agreement that a large-scale FTTP broadband network would safeguard the UK's position as a leading digital economy. However, for the investment to be economically viable, a number of key enablers will need to be put in place through close co-operation between Openreach, CPs, Ofcom and Government. These enablers include:

- a supportive policy and regulatory environment that encourages investment;
- 'FTTP switchover' - to maximise the benefits for all parties, Openreach proposes that all customers should be migrated over to the new network as quickly as possible after it has been built in a given area;
- agreeing how investment costs can be fairly recovered;
- Openreach demonstrating that it can build FTTP at scale for a competitive cost.

Openreach is considering all options carefully and will then invite views from CPs on a more specific set of proposals that cover potential pricing, footprint and a plan for FTTP switchover, by the end of the year. Openreach continues to welcome discussions with CPs on co-investment, risk sharing and network architecture approaches and will continue to engage with Ofcom and Government to build an environment that both encourages and facilitates investment. Further details can be found in Openreach's press release dated 31 October 2017.

We have passed 27.1m properties with our superfast fibre broadband network. We achieved 505,000 fibre broadband net connections, and service providers other than BT accounted for 65% of these. This brings the number of homes and businesses connected to around 8.6m, 32% of those passed. Our current plan is to make ultrafast broadband available to 12m homes and businesses by the end of 2020. We have announced a further 26 UK locations to pilot G.fast taking the total number of pilot locations to 46 and we are expecting G.fast to reach a million premises by the end of 2017/18. Our ultrafast broadband technology, using our FTTP and G.fast network, is now available to around 770,000 homes and businesses.

The UK broadband market[1] grew by 64,000, of which our retail share was 34%. Our retail fibre broadband additions increased by 179,000 taking our base to 5.3m; 57% of our retail customers are now on fibre.

We are also planning for all-IP. We intend to move solely to all-IP product solutions by 2025. All-IP brings significant benefits to our customers, such as single order fibre products, real time provision, and digital line quality and we are already seeing strong demand for such products in our enterprise markets.

*TV and BT Sport*

During the quarter, we began streaming our weekly rugby union magazine show, Rugby Tonight, for free on social media platforms. In addition, BT Sport Score, the football results show, is now available to anyone using Twitter in the UK. These initiatives provide potential subscribers with the opportunity to sample our programming and underline our commitment to make televised sport more accessible to fans.

Our TV customer base continues to grow with TV net adds of 7,000 taking our base to 1.8m and we introduced a charge for BT Sport for BT TV customers. Average viewing figures for BT Sport for the quarter increased 8% compared to last year (excluding showcase), driven by strong performance in both Premier League (up 2%) and UEFA Champions League (up 16%), with six British teams having qualified for the group stage for the first time since the 2007/08 season.

[1] DSL and fibre, excluding cable

### Key operational metrics

Our key operational metrics are as follows:

| Second quarter to 30 September | 2017 | 2016 |
|---|---|---|
| **Mobile** | | |
| Total mobile | **29.7m** | 30.2m |
| Net adds | | |
| - Postpaid | **279,000** | 280,000 |
| - Prepaid | **(260,000)** | (325,000) |
| Base | | |
| - Postpaid | **17.3m** | 16.4m |
| - Prepaid | **6.3m** | 7.6m |
| Postpaid churn | **1.2%** | n/a[1] |
| **Broadband** | | |
| Total broadband | **20.5m** | 20.1m |
| Openreach fibre net adds | **505,000** | 440,000 |
| Openreach fibre base | **8.6m** | 6.7m |
| Homes passed - fibre broadband network | **27.1m** | 26.1m |
| - of which homes passed - ultrafast capable | **771,000** | 326,000 |
| Retail fibre net adds | **179,000** | 216,000 |
| Retail fibre base | **5.3m** | 4.5m |
| **TV** | | |
| Net adds | **7,000** | 63,000 |
| Base | **1.8m** | 1.7m |
| **Lines** | | |
| Openreach | **25.1m** | 25.3m |
| Lines sold through BT lines of business | **13.0m** | 13.4m |
| **Revenue generating units per customer** | | |
| BT Consumer | **2.01** | 1.95 |
| **Average revenue per user (ARPU)** | | |
| BT Consumer | **£41.0** | £38.8 |
| Mobile postpaid | **£26.8** | £26.3 |
| Mobile prepaid | **£4.8** | £4.4 |
| **Order intake (rolling 12 month basis)** | | |
| Business and Public Sector | **£3,782m** | £3,095m |
| Global Services | **£3,871m** | £5,145m |
| Wholesale and Ventures | **£1,846m** | £1,394m |

[1] Comparative not available on the same basis

### Transform our costs

We continue to make good progress with our EE integration. At the end of the first year we had achieved run rate savings of £150m. Progress in the first half of this year has raised the run rate savings to £250m and we remain confident that we will achieve our stated objective of £400m by the end of the fourth year. Savings have been generated from renegotiating supplier terms, insourcing a range of activities EE previously had with third parties across technology and business services, rationalising our combined property estate and reducing head office and support employees. These will continue with the creation of a single Consumer line of business from April next year. The management teams for our BT Consumer and EE divisions have come together to develop the integration plans for the combined business. The two businesses will report separately for the rest of this financial year.

Our restructuring programmes, focussed principally in Global Services, TSO and our Group Functions, are also on track. We have incurred costs of £104m in the half year (£52m in the quarter), removing over 1,500 roles mainly from managerial and back office areas. Across the Group we expect to remove a further 1,500 roles in the second half of the year. In total our restructuring programmes will generate savings of £150m this year. We continue to expect these programmes to cost £300m, with a further 1,000 roles to be removed next year, and for these programmes to have a payback period of two years and to achieve annualised savings of £300m when complete.

In Group Functions, for example, we have created a new 'customer and enterprise transformation unit', bringing together our Group Customer Experience, Group Transformation and major programme delivery teams to create a new team focused on ensuring our major restructuring and investment programmes have aligned cost transformation and customer service objectives. Separately, we have created a new Group Business Services unit bringing together previously disparate shared service activity. This new unit will aim to sustainably reduce the unit costs of our back office activities through leveraging economies of scale and simplifying processes.

We continue to work on repositioning Global Services as a more focused digital business. Our aim is to shape Global Services so that it can deliver a global, scalable portfolio of our products and services from cloud-based platforms to our multinational customers across a global footprint. We are pressing ahead with restructuring Global Services to make ourselves a more efficient competitor, particularly in Europe. We are also developing more digital solutions for our customers and during the quarter we launched Agile Connect, a new software-defined wide area network service which is part of our dynamic network services. This gives customers greater control of their infrastructure as well as faster, simpler and more secure ways of setting up new sites.

## OTHER DEVELOPMENTS

### Our Italian business

In 2016/17 we reported that we had identified inappropriate behaviour and improper accounting practices in our Italian business. We commenced a programme of remediation activities some of which were completed during 2016/17 with others running into the current year and beyond. During the half year we continued to take steps to improve the control environment in our Italian business but recognise that we have further activities to complete during the second half of the year including the assessment of our internal controls over financial reporting as of 31 March 2018 for the purposes of the US Sarbanes-Oxley Act 2002. We are also working to complete the local statutory accounts of BT Italia for 2016/17.

### Regulation

*Deemed Consent*

We have settled £130m in compensation payments to other CPs in the half year. Compensation payments to the remaining CPs are currently being finalised. We continue to estimate the total compensation payments will amount to £300m.

*Digital Communications Review (DCR)*

In March 2017 we announced we had reached agreement with Ofcom in respect of its strategic review of the digital communications industry. This agreement will see Openreach become a distinct, legally separate company within the BT group.

In July 2017 Ofcom confirmed its decision to release BT from the Undertakings once the new Commitments are fully in place. We have already refreshed the Openreach brand and made progress on implementing the Openreach governance framework, and the new Openreach board under Mike McTighe is providing strong, independent leadership. Completing the reforms will depend on satisfaction of a number of conditions, including those relating to the Government amending the Crown Guarantee for the BT Pension Scheme and transferring employees to a distinct company, Openreach Limited.

*Wholesale Local Access (WLA) Market Review*

On 14 September 2017 Ofcom issued a further consultation on the WLA charge control in the light of stakeholder comments on the first consultation published in March 2017. Ofcom's new proposals include slight changes to the charge control for 40/10 generic Ethernet access (GEA) service and for the metallic path facility (MPF) service. It also contains revised proposals on quality of service. In a separate consultation issued on 9 August 2017, Ofcom proposed a mechanism to spread the cost of our universal broadband commitment across all broadband lines, should Government accept our offer. We continue to engage with Ofcom, building on our response to the initial consultation, to ensure that modelling assumptions and methodologies used to set any controls over the prices we charge in the WLA markets allow our investments to earn a fair return and reflect the costs of improved service delivery. We expect Ofcom to issue a final statement containing its proposals in early 2018, with those proposals to take effect from April 2018, and remain in place until March 2021.

## OUTLOOK

There is no change to our financial outlook for 2017/18.

| | 2017/18 |
|---|---|
| **Change in underlying[1] revenue excluding transit** | Broadly flat |
| **Adjusted[1] EBITDA** | £7.5bn - £7.6bn |
| **Normalised free cash flow[1]** | £2.7bn - £2.9bn |
| **Dividend per share** | Progressive |

## DIVIDEND POLICY

Our strategy aims to deliver sustainable profitable revenue growth. Our first priority for the allocation of free cash flow is value-enhancing re-investment in our business to drive long-term profitable growth. This creates long-term value for our shareholders, strengthens the pension fund covenant, and supports the development of products and services our customers can value and use to grow their businesses. Cash flow after investment is available to support the pension, fund our progressive dividend and maintain a strong balance sheet.

From next year, 2018/19, the interim dividend per share will be fixed at 30% of the prior year's full year dividend per share. However, in this transitional year, 2017/18, we have decided to hold our interim dividend at 4.85 pence per share.

Our progressive dividend policy remains unchanged; to maintain or grow the dividend each year whilst reflecting a number of factors including underlying medium term earnings expectations and levels of business reinvestment.

The interim dividend will be paid on 5 February 2018 to shareholders on the register on 29 December 2017. The ex-dividend date is 28 December 2017. The election date for participation in BT's Dividend Investment Plan in respect of this dividend is 29 December 2017. The final dividend for the year to 31 March 2017 of 10.55p, amounting to £1,050m, was approved at the Annual General Meeting on 12 July 2017 and paid on 4 September 2017.

## CHANGES TO REPORTING

With the requirement to report under IFRS 15 from the first quarter of the 2018/19 financial year, we have taken the opportunity to make additional changes to our operational and financial reporting to improve the efficiency of our reporting process and enhance the information that is provided to the market to enable an improved understanding of our businesses. There will be no changes in the current financial year with all changes to take effect from the first quarter next year prior to which we will provide updates and guidance to the market. The changes are:

### *IFRS 15*

We will report our financial statements under IFRS 15 from the first quarter of 2018/19. We now expect to adopt IFRS 15 on a modified retrospective basis in our 2018/19 financial statements. Accordingly we will not restate prior year comparatives for the effect of IFRS 15 but will instead restate our 1 April 2018 opening reserves for the full cumulative impact of adopting this standard. We will provide a reconciliation of our primary financial statements under IAS 18 to our primary financial statements under IFRS 15 in our Annual Report & Form 20-F 2019. We intend to provide detailed analysis of the expected impact of IFRS 15 including proforma restated results for prior quarters by business during Q1 2018/19.

### *Key Performance Indicators*

At the same time as making changes to our quarterly reporting, we intend to refresh the operational KPIs that we provide including combined KPIs for the new Consumer division. This will simplify and better align them to the internal metrics that we use to manage the business, and therefore improve visibility of the drivers of BT's operational performance.

### *Quarterly Reporting*

From the first quarter in 2018/19, we intend to move away from full quarterly reporting at the first and third quarter, and will instead provide quarterly trading statements. The trading statements will continue to contain sufficient financial and operational KPIs to allow investors and analysts to understand the drivers of our business including revenue and EBITDA by line of business. We will maintain full reporting for the half and full year reports.

We also plan to introduce a series of business briefings to provide the market with a better understanding of the strategy and operations of our individual businesses. We intend to start this programme in the first quarter of 2018/19.

[1] See Glossary on page 2

# Group results for the second quarter to 30 September 2017

### Income statement

Reported revenue was down 1% to £5,949m. This includes a £35m favourable impact from foreign exchange movements and a £40m reduction in transit revenue. Underlying[1] revenue excluding transit was down 1.5%.

Reported operating costs of £5,099m were down 1%. Adjusted[1] operating costs, before depreciation and amortisation, of £4,140m were down 1%, reflecting the increased pension costs, business rates, sports rights and increased customer investment offset by reduced payments to other telecoms operators and cost savings. This includes a £33m adverse impact from foreign exchange movements and a £40m decrease in transit costs. Underlying[1] operating costs excluding transit were down 0.3%.

Adjusted[1] EBITDA of £1,811m was down 4% and underlying[1] EBITDA was down 4.1%. Depreciation and amortisation of £892m was up 3%. Reported net finance expense was £184m while adjusted[1] net finance expense was £130m.

Specific items[1] resulted in a net charge before tax of £123m (Q2 2016/17: £202m) and after tax of £104m (Q2 2016/17: £151m). The main components include restructuring costs of £52m (Q2 2016/17: £nil) and the net interest expense on pensions of £54m (Q2 2016/17: £53m). Further detail on specific items is set out in note 4 to the condensed consolidated financial statements.

Reported profit before tax was down 1% at £666m. Adjusted[1] profit before tax was down 10% at £789m. The effective tax rate on profit before specific items was 20.4% (Q2 2016/17: 17.9%), with the rate being higher than the standard UK corporation tax rate (19%) principally due to higher overseas tax rates and disallowable costs.

Reported EPS was 5.3p, down 7%. Adjusted[1] EPS of 6.4p was down 11%. These are based on a weighted average number of shares in issue of 9,893m (Q2 2016/17: 9,932m).

### Capital expenditure

Capital expenditure was £858m (Q2 2016/17: £803m). This consists of gross expenditure of £897m (Q2 2016/17: £816m) which has been reduced by net grant funding of £39m (Q2 2016/17: £13m) mainly relating to our activity on the Broadband Delivery UK (BDUK) programme. The capital expenditure increase of £55m was primarily a result of increased investment in our fixed and mobile networks which was up £44m at £367m. Other capital expenditure components were up £11m with £323m spent on customer driven investments and £150m on systems and IT.

Our base-case assumption for take-up in BDUK areas remains at 39% of total homes passed. Under the terms of the BDUK programme, we have a potential obligation to either re-invest or repay grant funding depending on factors including the level of customer take-up achieved. While we have recognised gross grant funding of £52m (Q2 2016/17: £34m) in line with network build in the quarter, we have also deferred £13m (Q2 2016/17: £21m) of the total grant funding to reflect higher take-up levels on a number of contracts. To date we have deferred £477m (Q2 2016/17: £292m).

### Free cash flow

Net cash inflow from operating activities was down £464m at £1,270m. Normalised free cash flow[1] was down £205m at £689m. The decrease primarily reflects working capital phasing and higher capital expenditure. A reconciliation to our free cash flow is shown in Additional Information on page 36.

The net cash cost of specific items was £382m (Q2 2016/17: £62m). This includes payments related to the settlement of warranty claims under the 2015 EE acquisition agreement of £225m (Q2 2016/17: £nil), regulatory payments of £83m (Q2 2016/17: £nil), restructuring payments of £46m (Q2 2016/17: £10m) and EE integration cost payments of £20m (Q2 2016/17: £15m). After specific items and a £14m (Q2 2016/17: £44m) cash tax benefit from pension deficit payments, free cash was an inflow of £321m (Q2 2016/17: £876m).

### Net debt and liquidity

Net debt[1] was £9,520m at 30 September 2017, £710m higher than at 30 June 2017. The increase in the quarter reflects dividends paid of £1.0bn, £21m for the buyback of 7m shares and £5m of pension deficit payments offset by proceeds of £46m from the exercise of all-employee share options.

[1] See Glossary on page 2

**Pensions (Note 5 to the condensed consolidated financial statements)**

The IAS 19 net pension position at 30 September 2017 was a deficit of £7.7bn net of tax (£9.3bn gross of tax), compared with £8.0bn net of tax (£9.6bn gross of tax) at 30 June 2017. The fall in the deficit reflects a fall in the liabilities (driven by an increase in the discount rate), partly offset by a fall in the assets.

The triennial valuation is proceeding and constructive discussions continue with the BT Pension Scheme (BTPS) Trustee. We are considering a number of funding options to address the deficit, including arrangements that would give the BTPS a prior claim over certain BT assets. We still expect to complete the triennial valuation in the first half of the 2018 calendar year.

We continue to review the future pension benefits under our main defined benefit and defined contribution schemes in the UK, with the objective of providing fair, flexible and affordable pensions. Discussions with our unions are continuing and we expect to undertake a 60-day consultation with our affected employees shortly. A court hearing will also take place in early December to determine the appropriate approach for the future indexation of benefits for members of Section C of the BTPS.

[1] See Glossary on page 2

# Group results for the half year to 30 September 2017

### Income statement

Reported revenue was flat at £11,786m. This includes a £136m favourable impact from foreign exchange movements and a £67m reduction in transit revenue. Underlying revenue[1] excluding transit was down 0.7%.

Reported operating costs of £10,334m were up 4%. Adjusted[1] operating costs, before depreciation and amortisation, of £8,204m were up 1% reflecting the increased pension costs, business rates, sports rights and increased customer investment partly offset by reduced payments to other telecoms operators and cost savings. This includes a £120m adverse impact from foreign exchange movements and a £66m decrease in transit costs. Underlying[1] operating costs excluding transit were up 0.6%.

Adjusted[1] EBITDA of £3,596m was down 3% and underlying[1] EBITDA was down 3.3%. Depreciation and amortisation of £1,757m was up 2%. Reported net finance expense was £368m while adjusted[1] net finance expense was £259m.

Specific items[1] resulted in a net charge before tax of £496m (HY 2016/17: £287m) and after tax of £450m (HY 2016/17: £221m). The main components include the settlement of warranty claims arising under the 2015 EE acquisition agreement of £225m (HY 2016/17: £nil), restructuring costs of £104m (HY 2016/17: £nil) and the net interest expense on pensions of £109m (HY 2016/17: £105m). Further detail on specific items is set out in note 4 to the condensed consolidated financial statements.

Reported profit before tax was down 22% at £1,084m, due principally to the £496m specific item charge in the half year. Adjusted[1] profit before tax decreased 6% to £1,580m. The effective tax rate on profit before specific items was 20.3% (HY 2016/17: 17.9%). The Finance (No.2) Act 2017, published in September 2017, was substantively enacted on 31 October 2017. This Act contains provisions that defer relief for brought forward losses. If this Act had been substantively enacted as at 30 September 2017, the effect would have been a decrease to the deferred tax liability of £33m and an equal and opposite increase to the corporation tax creditor.

Reported EPS was 8.2p, down 29%. Adjusted[1] EPS of 12.7p was down 8%. These are based on a weighted average number of shares in issue of 9,915m (HY 2016/17: 9,933m).

### Capital expenditure

Capital expenditure was £1,693m (HY 2016/17: £1,580m). This consists of gross expenditure of £1,739m (HY 2016/17: £1,620m) which has been reduced by net grant funding of £46m (HY 2016/17: £40m) mainly relating to our activity on the Broadband Delivery UK (BDUK) programme. The capital expenditure increase of £113m was primarily a result of increased investment in our fixed and mobile networks which was up £99m at £740m. Other capital expenditure components were up £14m with £627m spent on customer driven investments and £292m on systems and IT.

### Free cash flow

Net cash inflow from operating activities was down £483m at £2,585m. Normalised free cash flow[1] was down £97m at £1,245m. The decrease primarily reflects working capital phasing and higher capital expenditure. A reconciliation to our free cash flow is shown in Additional Information on page 36.

The net cash cost of specific items was £589m (HY 2016/17: £114m). This includes payments related to the settlement of warranty claims arising from the 2015 EE acquisition agreement of £225m (HY 2016/17: £nil), regulatory payments of £197m (HY 2016/17: £nil), restructuring payments of £81m (HY 2016/17: £29m) and EE integration cost payments of £30m (HY 2016/17: £33m). After specific items and a £28m (HY 2016/17: £88m) cash tax benefit from pension deficit payments, free cash was an inflow of £684m (HY 2016/17: £1,316m).

### Net debt and liquidity

Net debt[1] was £9,520m at 30 September 2017, £588m higher than at 31 March 2017. The increase in the year reflects dividends paid of £1.0bn, £221m for the buyback of 76m shares and £10m of pension deficit payments offset by proceeds of £46m from the exercise of all-employee share options.

At 30 September 2017 the group held cash and current investment balances of £2.9bn. We repaid a £0.5bn bond on 23 June 2017. Short term borrowings of £1.6bn include term debt of £0.9bn repayable during the remainder of 2017/18 and £0.6bn comprises both collateral for open mark to market positions and overdrafts.

[1] See Glossary on page 2

On 23 June 2017 we issued term debt of £2,025m (€2,300m) on the medium-term Euro market. The effective Sterling interest rates on these 5, 7 and 10 year bonds was 1.66%, 2.01% and 2.50%, respectively.

During the period we cancelled our £1.5bn committed facility. This facility provided us with a bridge to capital market issuance and was cancelled in June 2017 when we issued the new Euro bonds. Our £2.1bn facility with 14 high quality syndicate banks (£150m each) remains undrawn at 30 September 2017. This facility matures in September 2021.

### Principal risks and uncertainties

A summary of the Group's principal risks and uncertainties is provided in note 11.

# Operating review

### BT Consumer

| | Second quarter to 30 September | | | | Half year to 30 September | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | | **2017** | 2016 | Change | |
| | **£m** | £m | £m | % | **£m** | £m | £m | % |
| Revenue | **1,261** | 1,251 | 10 | 1 | **2,516** | 2,426 | 90 | 4 |
| Operating costs | **1,016** | 999 | 17 | 2 | **2,038** | 1,935 | 103 | 5 |
| EBITDA | **245** | 252 | (7) | (3) | **478** | 491 | (13) | (3) |
| Depreciation & amortisation | **54** | 52 | 2 | 4 | **107** | 104 | 3 | 3 |
| Operating profit | **191** | 200 | (9) | (5) | **371** | 387 | (16) | (4) |
| | | | | | | | | |
| Capital expenditure | **74** | 53 | 21 | 40 | **133** | 111 | 22 | 20 |
| Normalised free cash flow | **23** | 90 | (67) | (74) | **278** | 388 | (110) | (28) |

Revenue was up 1% driven by an increase in Calls, Lines, Broadband, TV and Sport revenue. BT Consumer 12-month rolling ARPU increased 6% to £41 per month. Revenue generating units per customer[1] grew 3% to 2.01.

Across BT, superfast fibre broadband growth continued with 179,000 net additions, taking our customer base to 5.3m. Of our broadband customers, 57% are now on fibre. We added 22,000 broadband customers this quarter, representing 34% of the DSL and fibre broadband market net additions.

85% of our calls are answered in the UK compared to 58% at the same time last year, and average call waiting times are currently 74 seconds which is almost 4 minutes faster than last year. While further improvement is needed, we are pleased to see that Ofcom's complaints data shows a reduction of 25% for landlines and 18% for broadband when compared to the previous quarter. We launched the new BT TV app which is free to all BT TV customers, with many great features including access to BT TV premium channels and allowing customers to set recordings on the move.

Operating costs increased 2% due to the investment in new UK customer service roles and additional sports rights costs from Premier League, Box Nation and the Ashes uplift in our Cricket Australia deal. As a result EBITDA was down 3% in the quarter. Depreciation and amortisation was up 4% and operating profit was down 5% for the quarter.

We have continued to invest in our broadband capabilities to support the ongoing growth of fibre and increased bandwidth requirements to reduce peak time congestion. This led to a 40% increase in capital expenditure. Normalised free cash flow reduced 74% reflecting this capital expenditure along with adverse working capital movements that we expect to unwind.

[1] Revenue generating units are voice lines, broadband, TV and mobile

## EE

| | Second quarter to 30 September | | | | Half year to 30 September | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | | **2017** | 2016 | Change | |
| | **£m** | £m | £m | % | **£m** | £m | £m | % |
| Revenue | **1,326** | 1,277 | 49 | 4 | **2,617** | 2,520 | 97 | 4 |
| Operating costs | **1,000** | 995 | 5 | 1 | **1,956** | 1,957 | (1) | - |
| EBITDA | **326** | 282 | 44 | 16 | **661** | 563 | 98 | 17 |
| Depreciation & amortisation | **189** | 199 | (10) | (5) | **378** | 396 | (18) | (5) |
| Operating profit | **137** | 83 | 54 | 65 | **283** | 167 | 116 | 69 |
| | | | | | | | | |
| Capital expenditure | **155** | 149 | 6 | 4 | **328** | 299 | 29 | 10 |
| Normalised free cash flow | **224** | 135 | 89 | 66 | **390** | 322 | 68 | 21 |

Revenue was up 4% with a 6% increase in postpaid revenue and a 12% increase in fixed broadband revenues, partially offset by a 12% reduction in prepaid revenue. This is the fourth consecutive quarter of revenue growth, mainly due to our 'more for more' pricing strategy, with new and upgrading customers increasing their spend with us in return for bigger bundles of usage, exclusive content and better smartphones.

At the end of the quarter, the total BT mobile base was 29.7m. We added 279,000 postpaid mobile customers, taking the postpaid base to 17.3m. Group postpaid churn was 1.2% reflecting a continuing high level of customer loyalty. Our prepaid customers fell by 260,000, in line with industry trends, taking the base to 6.3m. Our 4G customer base reached 19.4m. Monthly mobile ARPU was £20.9, up 9%, reflecting an average of £26.8 for postpaid customers, up 2%, and £4.8 for prepaid customers, up 9%, across the Group.

In September we delivered the Home Office requirements to achieve the latest major milestone in the Emergency Services Network (ESN) contract. Our 4G geographic coverage now reaches 86% of the UK's landmass and we continue to work towards 95% coverage by the end of December 2020. EE was recognised as the best overall network in the latest OpenSignal report, and won Best Network in the Mobile Choice awards for the fifth year in a row. EE was the exclusive UK network to launch the new Apple Watch Series 3 with cellular connectivity.

Operating costs were £1,000m in the quarter, resulting in EBITDA of £326m. EBITDA was up 16%, driven by revenue growth in the quarter and reduced indirect costs. This increase was partially offset by increased customer investment costs, which are expected to accelerate in the second half of the year, driven by new smartphone launches. Depreciation and amortisation was £189m and operating profit was £137m for the quarter.

Capital expenditure was £155m in the quarter up 4% as network investment increased. Normalised free cash flow was £89m higher, reflecting the increase in EBITDA and favourable working capital movements which we expect to reverse next quarter.

### Business and Public Sector

| | Second quarter to 30 September | | | | Half year to 30 September | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | | **2017** | 2016 | Change | |
| | **£m** | £m | £m | **%** | **£m** | £m | £m | % |
| Revenue | **1,153** | 1,177 | (24) | (2) | **2,281** | 2,346 | (65) | (3) |
| - underlying excluding transit | | | | (1) | | | | (2) |
| Operating costs | **795** | 790 | 5 | 1 | **1,587** | 1,602 | (15) | (1) |
| EBITDA | **358** | 387 | (29) | (7) | **694** | 744 | (50) | (7) |
| Depreciation & amortisation | **99** | 90 | 9 | 10 | **185** | 176 | 9 | 5 |
| Operating profit | **259** | 297 | (38) | (13) | **509** | 568 | (59) | (10) |
| | | | | | | | | |
| Capital expenditure | **83** | 56 | 27 | 48 | **152** | 112 | 40 | 36 |
| Normalised free cash flow | **270** | 306 | (36) | (12) | **479** | 558 | (79) | (14) |

Revenue decreased 2% and underlying revenue excluding transit was down 1%, due to the decline in traditional lines as the market shifts to data and IP, offset by continued strong mobile and networking growth.

SME revenue was flat, with growth in mobile, VoIP and networking offsetting the decline in lines. Corporate revenue was also flat with strong growth in mobile offsetting the decline in lines. Public Sector and Major Business revenue was down 5%, with growth in mobile more than offset by lower equipment sales.

Foreign exchange movements had a £5m positive impact on Republic of Ireland revenue, where underlying revenue excluding transit was down 11%, due to the impact of churn on traditional lines and lower equipment sales.

Order intake decreased 14% to £0.7bn compared to the same quarter last year and was up 22% to £3.8bn on a rolling 12-month basis, due to the signing of a large wholesale contract in the Republic of Ireland in Q1.

Deals signed in the first half of the year include an agreement with Severn Trent Water to provide their core communications infrastructure including Managed WAN, Voice, SIP and LAN services. BT has been chosen by FirstGroup Plc as their preferred Mobility Partner to provide a full range of Mobility Services across their business. We have signed a significant multi-million pound contract with the London Borough of Bromley which will see BT taking responsibility for all of the Council's IT services and will involve the provision of new data and voice networks, mobile phones, internet access and support for business software applications to support more than 2,000 Council workers.

Operating costs were 1% higher and EBITDA declined 7% driven by the reduction in revenue. Depreciation and amortisation increased 10% and operating profit was 13% lower.

Capital expenditure increased £27m largely due to higher spend in customer contracts and normalised free cash flow was £36m lower reflecting the increased capital expenditure and £29m decrease in EBITDA, offset by the timing of working capital movements.

### Global Services

| | Second quarter to 30 September | | | | Half year to 30 September | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | | **2017** | 2016 | Change | |
| | **£m** | £m | £m | % | **£m** | £m | £m | % |
| Revenue | **1,262** | 1,409 | (147) | (10) | **2,506** | 2,659 | (153) | (6) |
| - underlying excluding transit | | | | (11) | | | | (9) |
| Operating costs | **1,181** | 1,277 | (96) | (8) | **2,352** | 2,408 | (56) | (2) |
| EBITDA | **81** | 132 | (51) | (39) | **154** | 251 | (97) | (39) |
| Depreciation & amortisation | **115** | 108 | 7 | 6 | **221** | 214 | 7 | 3 |
| Operating (loss) profit | **(34)** | 24 | (58) | (242) | **(67)** | 37 | (104) | (281) |
| | | | | | | | | |
| Capital expenditure | **59** | 100 | (41) | (41) | **128** | 191 | (63) | (33) |
| Normalised free cash flow | **46** | 58 | (12) | (21) | **(132)** | (225) | 93 | 41 |

Revenue for the quarter was down 10% including a £30m positive impact from foreign exchange movements whilst transit revenue was down £32m. Underlying revenue excluding transit was down 11%, and excluding the revenue of our Italian business was down 8%. This underlying revenue decline reflects lower IP Exchange volumes and equipment sales in the UK, in line with our strategy to reduce low margin business, the ongoing impact of a major customer insourcing services in the US, a large contract in Brazil that has now completed and lower general trading across all of our regions.

In the UK underlying revenue excluding transit was down 8%. In Continental Europe underlying revenue excluding transit was down 14%, and excluding the revenue of our Italian business was down 3%. In the Americas[1] underlying revenue was down 14% while in AMEA[2] underlying revenue was down 5%.

Our total order intake was £0.9bn in the quarter, down 38%, and on a rolling 12-month basis was £3.9bn, down 25% year on year, due to a number of large contracts in the prior year and ongoing challenging market conditions.

During the quarter we launched Agile Connect, a new software-defined wide area network (SD-WAN) service providing customers with greater control of their infrastructure as well as a faster, simpler and more secure way of setting up new sites. We further expanded our existing Security Operations Centre (SOC) in Sydney by opening a global cyber security research and development hub.

Operating costs were down 8% mainly reflecting the impact of lower revenue. EBITDA was down 39% for the quarter, and excluding the results of our Italian business was down 28% due to a combination of trading and increased pension and leaver costs. Depreciation and amortisation was up 6% due to the timing of recognition on certain projects. Operating loss for the quarter was £34m.

Capital expenditure was down 41% for the quarter primarily due to the timing of project-related expenditure which we expect to partially reverse in the second half of the year. Normalised free cash inflow was £46m.

[1] United States & Canada and Latin America (Americas)
[2] Asia Pacific, the Middle East and Africa (AMEA)

### Wholesale and Ventures

| | Second quarter to 30 September | | | | Half year to 30 September | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | | **2017** | 2016 | Change | |
| | **£m** | £m | £m | % | **£m** | £m | £m | % |
| Revenue | **505** | 522 | (17) | (3) | **997** | 1,040 | (43) | (4) |
| - underlying excluding transit | | | | (3) | | | | (3) |
| Operating costs | **318** | 318 | - | - | **636** | 637 | (1) | - |
| EBITDA | **187** | 204 | (17) | (8) | **361** | 403 | (42) | (10) |
| Depreciation & amortisation | **78** | 75 | 3 | 4 | **154** | 151 | 3 | 2 |
| Operating profit | **109** | 129 | (20) | (16) | **207** | 252 | (45) | (18) |
| | | | | | | | | |
| Capital expenditure | **55** | 51 | 4 | 8 | **106** | 101 | 5 | 5 |
| Normalised free cash flow | **120** | 155 | (35) | (23) | **220** | 289 | (69) | (24) |

Revenue was down 3% with underlying revenue excluding transit also down 3%. Managed solutions revenue was down 8% primarily due to continued lower revenue from our Mobile Ethernet Access Services contracts, reflecting the maturity of mobile network operator 4G build out programmes.

Data and Broadband revenue was down 8% due to the continuing decline in legacy Partial Private Circuits. This was a sharper decline than in Q1 because Q2 last year benefitted from higher connections revenue in Optical. Voice revenue was down 3%.

Our Ventures business generated revenue of £80m. This was down 2% mainly due to decline in our Phonebook business partially offset by growth in bulk messaging services, Supply Chain and Fleet Solutions.

Mobile generated revenue of £60m, up 11% helped by increased data usage by MVNO customers.

In Ventures 26 InLinkUK units were live at the end of the quarter, and we are encouraged by the digital advertising revenue we earn from these. We are also very pleased that our media and broadcast division won an Emmy Award for the way we connect television companies to the BT Tower to distribute live footage.

Order intake of £372m was up 16% on last year, but up 117% on Q1 reflecting the expected slippage of some deals from Q1 to Q2. On a rolling 12-month basis order intake is £1.8bn, up 32% year on year.

Operating costs were broadly flat and EBITDA decreased 8% reflecting the revenue decline, particularly in higher margin legacy services. The EBITDA performance was slightly below our expectations reflecting the competitive dynamics of the data and broadband markets. For the quarter, depreciation and amortisation was up 4%, and operating profit decreased 16%.

Capital expenditure was up 8%. Normalised free cash flow was £120m, down 23% on last year reflecting lower EBITDA and timing on working capital.

## Openreach

| | Second quarter to 30 September | | | | Half year to 30 September | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | Change | | **2017** | 2016 | Change | |
| | **£m** | £m | £m | % | **£m** | £m | £m | % |
| Revenue | **1,281** | 1,273 | 8 | 1 | **2,548** | 2,525 | 23 | 1 |
| Operating costs | **657** | 643 | 14 | 2 | **1,310** | 1,263 | 47 | 4 |
| EBITDA | **624** | 630 | (6) | (1) | **1,238** | 1,262 | (24) | (2) |
| Depreciation & amortisation | **347** | 333 | 14 | 4 | **690** | 665 | 25 | 4 |
| Operating profit | **277** | 297 | (20) | (7) | **548** | 597 | (49) | (8) |
| | | | | | | | | |
| Capital expenditure | **397** | 357 | 40 | 11 | **787** | 694 | 93 | 13 |
| Normalised free cash flow | **184** | 456 | (272) | (60) | **487** | 691 | (204) | (30) |

Revenue was up 1% with growth of 21% in fibre broadband and 2% for our Ethernet products offsetting an ongoing reduction in the copper line base. This growth includes regulatory price changes which had a negative impact of around £13m and commercial price changes which had a negative impact of around £14m.

We continue to extend the reach of fibre broadband which is now available to more than 27.1m premises of which around 770,000 can order an ultrafast (100Mbps+) service via our FTTP or G.fast technologies. We now have around 8.6m customers connected to fibre which is around 32% of those passed.

We continue to focus on improving the experience of our customers. Year to date we are ahead on all 60 copper minimum service levels set by Ofcom and have seen a 2% reduction in our copper network faults compared to the first half of last year.

Openreach's consultation with Communication Providers on the investment case for a large-scale FTTP broadband network across the UK indicated broad support for this proposition. However, for the investment to be economically viable, a number of key enablers will need to be put in place through close co-operation between Openreach, CPs, Ofcom and Government. The enablers include: a supportive policy and regulatory environment that encourages investment; FTTP switchover; agreeing how investment costs can be fairly recovered; and Openreach demonstrating that it can build FTTP at scale for a competitive cost. We plan to invite views from CPs on a more specific set of proposals that cover potential pricing, footprint and a plan for FTTP switchover, by the end of the year. Further details can be found in our press release dated 31 October 2017.

Operating costs were 2% higher mainly driven by an increase in business rates charged on network assets and higher pension charges that were partly offset by lower service level guarantee payments as a result of clearing our aged Ethernet tail. EBITDA was down 1% and depreciation and amortisation was up 4% with operating profit down 7%.

Capital expenditure was £397m, up £40m or 11%, reflecting our ongoing investment in fibre broadband coverage and speed, and delivering a higher volume of Ethernet connections. Capital expenditure includes gross grant funding of £50m (Q2 2016/17: £34m) directly related to our activity on the BDUK programme build which was offset by the deferral of £12m of grant funding (Q2 2016/17: £21m). Under the terms of the BDUK programme we have a potential obligation to either re-invest or repay grant funding depending on factors including the level of customer take-up achieved.

Normalised free cash flow was down 60% due to timing of customer cash receipts and higher capital investment.

# Financial statements

## Group income statement

For the second quarter to 30 September 2017 (unreviewed)

| | Note | Before specific items | Specific items | Total |
|---|---|---|---|---|
| | | £m | £m | £m |
| **Revenue** | 2 | 5,951 | (2) | **5,949** |
| Operating costs | 3 | (5,032) | (67) | **(5,099)** |
| **Operating profit** | | 919 | (69) | **850** |
| Finance expense | | (132) | (54) | **(186)** |
| Finance income | | 2 | - | **2** |
| **Net finance expense** | | (130) | (54) | **(184)** |
| Share of post tax profit (losses) of associates and joint ventures | | - | - | **-** |
| **Profit before tax** | | 789 | (123) | **666** |
| Tax | | (161) | 19 | **(142)** |
| **Profit for the period** | | 628 | (104) | **524** |
| **Earnings per share** | | | | |
| - basic | | 6.4p | | **5.3p** |
| - diluted | | 6.4p | | **5.3p** |

## Group income statement

For the second quarter to 30 September 2016 (unreviewed)

| | Note | Before specific items | Specific items | Total |
|---|---|---|---|---|
| | | £m | £m | £m |
| **Revenue** | 2 | 6,053 | (46) | 6,007 |
| Operating costs | 3 | (5,034) | (103) | (5,137) |
| **Operating profit** | | 1,019 | (149) | 870 |
| Finance expense | | (150) | (53) | (203) |
| Finance income | | 4 | - | 4 |
| **Net finance expense** | | (146) | (53) | (199) |
| Share of post tax profit (losses) of associates and joint ventures | | - | - | - |
| **Profit before tax** | | 873 | (202) | 671 |
| Tax | | (156) | 51 | (105) |
| **Profit for the period** | | 717 | (151) | 566 |
| **Earnings per share** | | | | |
| - basic | | 7.2p | | 5.7p |
| - diluted | | 7.2p | | 5.7p |

## Group income statement

For the half year to 30 September 2017

| | Note | Before specific items £m | Specific items £m | Total £m |
|---|---|---|---|---|
| **Revenue** | 2 | 11,800 | (14) | **11,786** |
| Operating costs | 3 | (9,961) | (373) | **(10,334)** |
| **Operating profit** | | 1,839 | (387) | **1,452** |
| Finance expense | | (263) | (109) | **(372)** |
| Finance income | | 4 | - | **4** |
| **Net finance expense** | | (259) | (109) | **(368)** |
| Share of post tax profit (losses) of associates and joint ventures | | - | - | **-** |
| **Profit before tax** | | 1,580 | (496) | **1,084** |
| Tax | | (321) | 46 | **(275)** |
| **Profit for the period** | | 1,259 | (450) | **809** |
| **Earnings per share** | | | | |
| - basic | | 12.7p | | **8.2p** |
| - diluted | | 12.7p | | **8.2p** |

## Group income statement

For the half year to 30 September 2016

| | Note | Before specific items £m | Specific items £m | Total £m |
|---|---|---|---|---|
| **Revenue** | 2 | 11,828 | (46) | 11,782 |
| Operating costs | 3 | (9,846) | (136) | (9,982) |
| **Operating profit** | | 1,982 | (182) | 1,800 |
| Finance expense | | (308) | (105) | (413) |
| Finance income | | 8 | - | 8 |
| **Net finance expense** | | (300) | (105) | (405) |
| Share of post tax losses of associates and joint ventures | | (7) | - | (7) |
| **Profit before tax** | | 1,675 | (287) | 1,388 |
| Tax | | (300) | 66 | (234) |
| **Profit for the period** | | 1,375 | (221) | 1,154 |
| **Earnings per share** | | | | |
| - basic | | 13.8p | | 11.6p |
| - diluted | | 13.7p | | 11.5p |

## Group statement of comprehensive income

For the second quarter and half year to 30 September

| | Second quarter to 30 September (unreviewed) | | Half year to 30 September | |
|---|---|---|---|---|
| | **2017** **£m** | 2016 £m | **2017** **£m** | 2016 £m |
| **Profit for the period** | **524** | 566 | **809** | 1,154 |
| **Other comprehensive income (loss)** | | | | |
| **Items that will not be reclassified to the income statement:** | | | | |
| Remeasurements of the net pension obligation | **437** | (3,864) | **(4)** | (4,985) |
| Tax on pension remeasurements | **(76)** | 613 | **17** | 815 |
| **Items that have been or may be reclassified subsequently to the income statement:** | | | | |
| Exchange differences on translation of foreign operations | **(58)** | 67 | **(114)** | 206 |
| Fair value movements on available-for-sale assets | **5** | (2) | **4** | (7) |
| Fair value movements on cash flow hedges: | | | | |
| - net fair value (losses) gains | **(74)** | 306 | **(49)** | 936 |
| - recognised in income and expense | **67** | (307) | **78** | (825) |
| Tax on components of other comprehensive income that have been or may be reclassified | **(5)** | 6 | **(9)** | 1 |
| **Other comprehensive profit (loss) for the period, net of tax** | **296** | (3,181) | **(77)** | (3,859) |
| **Total comprehensive income (loss) for the period** | **820** | (2,615) | **732** | (2,705) |

## Group balance sheet

| | 30 September 2017 | 30 September 2016[1] | 31 March 2017 |
|---|---|---|---|
| | **£m** | £m | £m |
| **Non-current assets** | | | |
| Intangible assets | 14,699 | 15,267 | 15,029 |
| Property, plant and equipment | 16,718 | 16,208 | 16,498 |
| Derivative financial instruments | 1,673 | 2,352 | 1,818 |
| Investments | 47 | 40 | 44 |
| Associates and joint ventures | 36 | 24 | 31 |
| Trade and other receivables | 257 | 241 | 360 |
| Deferred tax assets | 1,756 | 2,061 | 1,717 |
| | **35,186** | 36,193 | 35,497 |
| **Current assets** | | | |
| Programme rights | 640 | 624 | 264 |
| Inventories | 243 | 270 | 227 |
| Trade and other receivables | 3,806 | 3,889 | 3,835 |
| Current tax receivable | 57 | 65 | 73 |
| Derivative financial instruments | 440 | 280 | 428 |
| Investments | 2,572 | 2,379 | 1,520 |
| Cash and cash equivalents | 353 | 573 | 528 |
| | **8,111** | 8,080 | 6,875 |
| **Current liabilities** | | | |
| Loans and other borrowings | 2,544 | 3,093 | 2,632 |
| Derivative financial instruments | 67 | 42 | 34 |
| Trade and other payables | 7,271 | 7,582 | 7,437 |
| Current tax liabilities | 189 | 291 | 197 |
| Provisions | 485 | 189 | 625 |
| | **10,556** | 11,197 | 10,925 |
| **Total assets less current liabilities** | **32,741** | 33,076 | 31,447 |
| | | | |
| **Non-current liabilities** | | | |
| Loans and other borrowings | 11,521 | 11,257 | 10,081 |
| Derivative financial instruments | 766 | 1,004 | 869 |
| Retirement benefit obligations | 9,335 | 11,491 | 9,088 |
| Other payables | 1,372 | 1,204 | 1,298 |
| Deferred tax liabilities | 1,355 | 1,234 | 1,240 |
| Provisions | 502 | 545 | 536 |
| | **24,851** | 26,735 | 23,112 |
| **Equity** | | | |
| Ordinary shares | 499 | 499 | 499 |
| Share premium | 1,051 | 1,051 | 1,051 |
| Own shares | (208) | (115) | (96) |
| Merger reserve | 6,647 | 6,647 | 6,647 |
| Other reserves | 794 | 986 | 884 |
| Retained loss | (893) | (2,727) | (650) |
| **Total equity** | **7,890** | 6,341 | 8,335 |
| | **32,741** | 33,076 | 31,447 |

[1] Revised. See note 1 to the condensed consolidated financial statements

## Group statement of changes in equity

For the half year to 30 September 2017

| | Share Capital £m | Share Premium £m | Own Shares £m | Merger Reserve £m | Other Reserves £m | Retained Earnings £m | Total Equity £m |
|---|---|---|---|---|---|---|---|
| **At 1 April 2017** | 499 | 1,051 | (96) | 6,647 | 884 | (650) | 8,335 |
| Profit for the period | - | - | - | - | - | 809 | 809 |
| Other comprehensive loss before tax | - | - | - | - | (159) | (4) | (163) |
| Tax on other comprehensive (loss) income | - | - | - | - | (9) | 17 | 8 |
| Transferred to the income statement | - | - | - | - | 78 | - | 78 |
| Comprehensive (loss) income | - | - | - | - | (90) | 822 | 732 |
| Dividends to shareholders | - | - | - | - | - | (1,044) | (1,044) |
| Share-based payments | - | - | - | - | - | 40 | 40 |
| Net buyback of own shares | - | - | (112) | - | - | (63) | (175) |
| Other movements | - | - | - | - | - | 2 | 2 |
| **At 30 September 2017** | **499** | **1,051** | **(208)** | **6,647** | **794** | **(893)** | **7,890** |

For the half year to 30 September 2016

| | Share Capital £m | Share Premium £m | Own Shares £m | Merger Reserve £m | Other Reserves £m | Retained Earnings £m | Total Equity £m |
|---|---|---|---|---|---|---|---|
| **At 1 April 2016[1]** | 499 | 1,051 | (115) | 8,422 | 685 | (430) | 10,112 |
| Profit for the year | - | - | - | - | - | 1,154 | 1,154 |
| Other comprehensive income (loss) before tax[1] | - | - | - | - | 1,125 | (4,975) | (3,850) |
| Tax on other comprehensive income | - | - | - | - | 1 | 815 | 816 |
| Transferred to the income statement | - | - | - | - | (825) | - | (825) |
| Comprehensive income (loss) | - | - | - | - | 301 | (3,006) | (2,705) |
| Transfer to realised profit | - | - | - | (1,775) | - | 1,775 | - |
| Dividends to shareholders | - | - | - | - | - | (954) | (954) |
| Share-based payments | - | - | - | - | - | 33 | 33 |
| Net buyback of own shares | - | - | - | - | - | (146) | (146) |
| Other movements | - | - | - | - | - | 1 | 1 |
| **At 30 September 2016** | 499 | 1,051 | (115) | 6,647 | 986 | (2,727) | 6,341 |

[1] Revised. See note 1 to the condensed consolidated financial statements

## Group cash flow statement

For the second quarter and half year to 30 September

| | Second quarter to 30 September (unreviewed) | | Half year to 30 September | |
|---|---|---|---|---|
| | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| **Cash flow from operating activities** | | | | |
| Profit before tax | 666 | 671 | 1,084 | 1,388 |
| Share-based payments | 22 | 16 | 40 | 33 |
| Profit on disposal of subsidiaries and interest in associates | (1) | (14) | (1) | (14) |
| Share of post tax losses of associates and joint ventures | - | - | - | 7 |
| Net finance expense | 184 | 199 | 368 | 405 |
| Depreciation and amortisation | 892 | 869 | 1,757 | 1,724 |
| (Increase) decrease in working capital | (114) | 156 | (410) | (208) |
| Provisions, pensions and other non-cash movements[1] | (280) | (48) | (72) | (49) |
| **Cash inflow from operating activities[2]** | **1,369** | 1,849 | **2,766** | 3,286 |
| Tax paid | (99) | (115) | (181) | (218) |
| **Net cash inflow from operating activities** | **1,270** | 1,734 | **2,585** | 3,068 |
| **Cash flow from investing activities** | | | | |
| Interest received | 2 | 2 | 2 | 5 |
| Acquisition of subsidiaries[3], associates and joint ventures | (1) | 15 | (20) | 11 |
| Proceeds on disposal of subsidiaries | 2 | 46 | 2 | 46 |
| Purchases of property, plant and equipment and software | (875) | (752) | (1,665) | (1,463) |
| Proceeds on disposal of property, plant and equipment | 5 | 1 | 11 | 1 |
| Purchase of non-current asset investments | - | (21) | - | (21) |
| Purchases of current financial assets | (1,985) | (2,492) | (5,892) | (4,565) |
| Proceeds on disposal of current financial assets | 2,655 | 2,531 | 4,853 | 5,139 |
| **Net cash outflow from investing activities** | **(197)** | (670) | **(2,709)** | (847) |
| **Cash flow from financing activities** | | | | |
| Interest paid | (86) | (96) | (259) | (287) |
| Equity dividends paid | (1,037) | (948) | (1,038) | (951) |
| Proceeds from bank loans and bonds | 2 | - | 2,029 | 2 |
| Repayment of borrowings[4] | (1) | - | (502) | (392) |
| Cash flows from derivatives related to net debt | (134) | 205 | (132) | 197 |
| Net repayment on facility loans | - | (181) | - | (619) |
| Proceeds from issue of own shares | 46 | 56 | 46 | 60 |
| Repurchase of ordinary share capital | (21) | (30) | (221) | (206) |
| **Net cash outflow from financing activities** | **(1,231)** | (994) | **(77)** | (2,196) |
| **Net (decrease) increase in cash and cash equivalents** | **(158)** | 70 | **(201)** | 25 |
| Opening cash and cash equivalents | 461 | 439 | 511 | 459 |
| Net (decrease) increase in cash and cash equivalents | (158) | 70 | (201) | 25 |
| Effect of exchange rate changes | (12) | 5 | (19) | 30 |
| **Closing cash and cash equivalents[5]** | **291** | 514 | **291** | 514 |

[1] Includes pension deficit payments of £5m for the quarter (Q2 2016/17: £8m) and £10m for the half year to 30 September 2017 (HY 2016/17: £13m)
[2] Includes cash flows relating to TV programme rights
[3] Prior year includes a true up of consideration following the audit of the completion balance sheet relating to the acquisition of EE
[4] Repayment of borrowings includes the impact of hedging and repayment of lease liabilities
[5] Net of bank overdrafts of £62m at 30 September 2017 (30 September 2016: £59m; 31 March 2017: £17m)

# 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 2017 and 30 September 2016 together with the audited balance sheet at 31 March 2017. The financial statements for the half year to 30 September 2017 have been reviewed by the auditors and their review opinion is on pages 33 to 34. The financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules sourcebook (DTR) of the Financial Conduct Authority and with IAS 34 *Interim Financial Reporting* as adopted by the European Union. The financial statements should be read in conjunction with the Annual Report & Form 20-F 2017 which was prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

Except as described below and other than income taxes which are accrued using the tax rate that is expected to be applicable for the full financial year, the financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2017 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 2017 were approved by the Board of Directors on 11 May 2017, published on 25 May 2017, 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.

### New and amended accounting standards

*IFRS 15 'Revenue from Contracts with Customers'*

We will report our financial statements under IFRS 15 from the first quarter of 2018/19. We now expect to adopt IFRS 15 on a modified retrospective basis in our 2018/19 financial statements. Accordingly we will not restate prior year comparatives for the effect of IFRS 15 but will instead restate our 1 April 2018 opening reserves for the full cumulative impact of adopting this standard. We will provide a reconciliation of our primary financial statements under IAS 18 to our primary financial statements under IFRS 15 in our Annual Report & Form 20-F 2019.

*Amendments to IAS 7 'Statement of Cash Flows'*

The amendments to IAS 7 'Statement of Cash Flows' require entities to provide disclosures about changes in liabilities arising from financing activities. On initial application, we are not required to provide comparative information for preceding periods. These amendments are effective from 1 April 2017. However we are not required to provide additional disclosures in these financial statements, but we will disclose additional information in our Annual Report & Form 20-F 2018.

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

### Revisions on prior year financial statements

We have made several revisions to our prior year financial information as set out below. The effect of the prior year revisions on the balance sheet as at 30 September 2016 is set out below.

*Investigation into our Italian business*

In 2016/17 our investigations into our Italian business revealed inappropriate behaviour and improper accounting practices. The improper practices included a complex set of improper sales, purchase, factoring and leasing transactions. Errors we identified which related to 2015/16 and prior periods amounted to a £293m reduction in total equity in our 30 September 2016 balance sheet. The effect of the prior year errors on the balance sheet as at 30 September 2016 is set out overleaf and replicates the adjustments recorded on the balance sheet as at 31 March 2016.

*Acquisition of EE*

IFRS 3 'Business Combinations' requires us to recognise provisional fair values if the initial accounting for the business combination is incomplete. In the period ended 31 March 2016, we reported that the fair values recognised for our 29 January 2016 acquisition of EE were provisional. During 2016/17, we finalised this assessment and also received a purchase consideration refund from the previous owners of £20m following the finalisation of the audit of the completion balance sheet. This resulted in a revision to previously recognised brand and customer relationship assets which decreased by £15m. Our reassessment also led to a £14m decrease in receivables and an increase in provisions related to unfavourable contracts in the amount of £20m. The net impact of the adjustments including the deferred tax effect resulted in an increase in goodwill of £29m as of 30 September 2016. These had no material impact on the income statement.

## Revision of prior period statements

*Group balance sheet*

At 30 September 2016

| | As published | EE purchase price accounting finalisation adjustment[1,2] | Italian business adjustment[1] | Revised |
|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** |
| **Non-current assets** | | | | |
| Intangible assets | 15,233 | 34 | - | 15,267 |
| Property, plant and equipment | 16,251 | - | (43) | 16,208 |
| Trade and other receivables | 257 | - | (16) | 241 |
| Other non-current assets | 4,477 | - | - | 4,477 |
| | **36,218** | **34** | **(59)** | **36,193** |
| **Current assets** | | | | |
| Trade and other receivables | 4,002 | (14) | (99) | 3,889 |
| Cash and cash equivalents | 573 | - | - | 573 |
| Other current assets | 3,618 | - | - | 3,618 |
| | **8,193** | **(14)** | (99) | **8,080** |
| **Current liabilities** | | | | |
| Loans and other borrowings | 3,093 | - | - | 3,093 |
| Trade and other payables | 7,440 | - | 142 | 7,582 |
| Other current liabilities | 515 | 7 | - | 522 |
| | **11,048** | **7** | **142** | **11,197** |
| **Total assets less current liabilities** | **33,363** | **13** | **(300)** | **33,076** |
| | | | | |
| **Non-current liabilities** | | | | |
| Loans and other borrowings | 11,264 | - | (7) | 11,257 |
| Retirement benefit obligations | 11,491 | - | - | 11,491 |
| Other non-current liabilities | 3,974 | 13 | - | 3,987 |
| | **26,729** | **13** | **(7)** | **26,735** |
| **Equity** | | | | |
| Ordinary shares | 499 | - | - | 499 |
| Other reserves | 8,599 | - | (30) | 8,569 |
| Retained loss | (2,464) | - | (263) | (2,727) |
| **Total equity** | **6,634** | **-** | **(293)** | **6,341** |
| | **33,363** | **13** | **(300)** | **33,076** |

[1] Revised to reflect EE PPA finalisation and the outcome of our investigation into our Italian business

[2] The above adjustments differ from those disclosed in the Annual Report & Form 20-F 2017 to reflect the true up of consideration initially recorded in the 30 September 2016 balance sheet and subsequently reflected in our purchase price accounting in Q4 2016/17

## 2 Operating results – by line of business

| | External revenue | Internal revenue | Group revenue | EBITDA | Operating profit |
|---|---|---|---|---|---|
| **Second quarter to 30 September 2017** (unreviewed) | **£m** | **£m** | **£m** | **£m** | **£m** |
| BT Consumer | **1,245** | **16** | **1,261** | **245** | **191** |
| EE | **1,317** | **9** | **1,326** | **326** | **137** |
| Business and Public Sector | **1,124** | **29** | **1,153** | **358** | **259** |
| Global Services | **1,262** | **-** | **1,262** | **81** | **(34)** |
| Wholesale and Ventures | **469** | **36** | **505** | **187** | **109** |
| Openreach | **531** | **750** | **1,281** | **624** | **277** |
| Other | **3** | **-** | **3** | **(10)** | **(20)** |
| Intra-group items | **-** | **(840)** | **(840)** | **-** | **-** |
| **Total** | **5,951** | **-** | **5,951** | **1,811** | **919** |
| **Second quarter to 30 September 2016** (unreviewed) | | | | | |
| BT Consumer | 1,235 | 16 | 1,251 | 252 | 200 |
| EE | 1,266 | 11 | 1,277 | 282 | 83 |
| Business and Public Sector | 1,153 | 24 | 1,177 | 387 | 297 |
| Global Services | 1,409 | - | 1,409 | 132 | 24 |
| Wholesale and Ventures | 483 | 39 | 522 | 204 | 129 |
| Openreach | 506 | 767 | 1,273 | 630 | 297 |
| Other | 1 | - | 1 | 1 | (11) |
| Intra-group items | - | (857) | (857) | - | - |
| **Total** | 6,053 | - | 6,053 | 1,888 | 1,019 |

| | External Revenue | Internal revenue | Group revenue | EBITDA | Operating profit |
|---|---|---|---|---|---|
| **Half year to 30 September 2017** | **£m** | **£m** | **£m** | **£m** | **£m** |
| BT Consumer | **2,484** | **32** | **2,516** | **478** | **371** |
| EE | **2,599** | **18** | **2,617** | **661** | **283** |
| Business and Public Sector | **2,224** | **57** | **2,281** | **694** | **509** |
| Global Services | **2,506** | **-** | **2,506** | **154** | **(67)** |
| Wholesale and Ventures | **926** | **71** | **997** | **361** | **207** |
| Openreach | **1,054** | **1,494** | **2,548** | **1,238** | **548** |
| Other | **7** | **-** | **7** | **10** | **(12)** |
| Intra-group items | **-** | **(1,672)** | **(1,672)** | **-** | **-** |
| **Total** | **11,800** | **-** | **11,800** | **3,596** | **1,839** |
| **Half year to 30 September 2016** | | | | | |
| BT Consumer | 2,394 | 32 | 2,426 | 491 | 387 |
| EE | 2,501 | 19 | 2,520 | 563 | 167 |
| Business and Public Sector | 2,285 | 61 | 2,346 | 744 | 568 |
| Global Services | 2,659 | - | 2,659 | 251 | 37 |
| Wholesale and Ventures | 974 | 66 | 1,040 | 403 | 252 |
| Openreach | 1,011 | 1,514 | 2,525 | 1,262 | 597 |
| Other | 4 | - | 4 | (8) | (26) |
| Intra-group items | - | (1,692) | (1,692) | - | - |
| **Total** | 11,828 | - | 11,828 | 3,706 | 1,982 |

## 3 Operating costs

| | Second quarter to 30 September (unreviewed) | | Half year to 30 September | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **£m** | £m | **£m** | £m |
| Direct labour costs | **1,351** | 1,307 | **2,690** | 2,581 |
| Indirect labour costs | **234** | 208 | **451** | 402 |
| Leaver costs | **13** | 14 | **30** | 54 |
| **Total labour costs** | **1,598** | 1,529 | **3,171** | 3,037 |
| Capitalised Labour | **(347)** | (309) | **(668)** | (588) |
| **Net labour costs** | **1,251** | 1,220 | **2,503** | 2,449 |
| Payments to telecommunications operators | **615** | 692 | **1,207** | 1,327 |
| Property and energy costs | **328** | 309 | **649** | 600 |
| Network operating and IT costs | **239** | 235 | **476** | 455 |
| Programme rights charges | **188** | 177 | **377** | 340 |
| Other operating costs | **1,519** | 1,532 | **2,992** | 2,951 |
| **Operating costs before depreciation, amortisation and specific items** | **4,140** | 4,165 | **8,204** | 8,122 |
| Depreciation and amortisation | **892** | 869 | **1,757** | 1,724 |
| **Total operating costs before specific items** | **5,032** | 5,034 | **9,961** | 9,846 |
| Specific items (Note 4) | **67** | 103 | **373** | 136 |
| **Total operating costs** | **5,099** | 5,137 | **10,334** | 9,982 |

## 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 (unreviewed) | | Half year to 30 September | |
|---|---|---|---|---|
| | **2017** **£m** | 2016 £m | **2017** **£m** | 2016 £m |
| **Specific revenue** | | | | |
| Italian business investigation | **-** | 52 | **-** | 52 |
| Retrospective regulatory matters | **2** | (6) | **14** | (6) |
| **Specific revenue** | **2** | 46 | **14** | 46 |
| **Specific operating costs** | | | | |
| EE acquisition warranty claims | **-** | - | **225** | - |
| Restructuring charge | **52** | - | **104** | - |
| EE integration costs | **14** | 18 | **26** | 51 |
| Retrospective regulatory matters | **(2)** | 6 | **13** | 6 |
| Italian business investigation | **4** | 93 | **6** | 93 |
| Profit on disposal of business | **(1)** | (14) | **(1)** | (14) |
| **Specific operating costs** | **67** | 103 | **373** | 136 |
| **Specific operating loss** | **69** | 149 | **387** | 182 |
| Net interest expense on pensions | **54** | 53 | **109** | 105 |
| **Net specific items charge before tax** | **123** | 202 | **496** | 287 |
| Tax credit on specific items before tax | **(19)** | (8) | **(46)** | (23) |
| Tax credit on re-measurement of deferred tax | **-** | (43) | **-** | (43) |
| **Net specific items charge after tax** | **104** | 151 | **450** | 221 |

**EE acquisition warranty claims**

In the half year we reached settlements with Deutsche Telekom and Orange in respect of any warranty claims under the 2015 EE acquisition agreement, arising from the issues previously announced regarding our operations in Italy. This represents a full and final settlement of these issues and results in a specific item charge of £225m (HY 2016/17: £nil).

**Restructuring charge**

Costs of £104m (HY 2016/17: £nil) have been incurred in the first half of 2017/18 in relation to our restructuring programmes.

**Italian business investigation**

On page 24 we discussed our prior year investigation into our Italian business. In the prior year, as part of this investigation we reviewed the carrying value of the assets and liabilities on the balance sheet of our Italian business. We took into account any changes in fact or circumstances since 31 March 2016 in determining whether there was a need to change an estimate and whether additional exposures had arisen. We recognised a charge of £145m in respect of this in the second quarter of 2016/17, and a further charge of £100m in the third quarter of 2016/17 bringing the total impact to £245m. In the first half of 2017/18, we have incurred investigation costs of £6m.

## 5 Pensions

| | 30 September 2017 | 30 June 2017 (unreviewed) | 31 March 2017 |
|---|---|---|---|
| | **£bn** | £bn | £bn |
| IAS 19 liabilities – BTPS | **(57.5)** | (58.1) | (58.6) |
| Assets – BTPS | **48.7** | 49.0 | 50.0 |
| Other schemes | **(0.5)** | (0.5) | (0.5) |
| **Total IAS 19 deficit, gross of tax** | **(9.3)** | (9.6) | (9.1) |
| **Total IAS 19 deficit, net of tax** | **(7.7)** | (8.0) | (7.6) |
| | | | |
| Discount rate (nominal) | **2.50%** | 2.45% | 2.40% |
| Discount rate (real) | **(0.68)%** | (0.73)% | (0.78)% |
| RPI inflation | **3.20%** | 3.20% | 3.20% |
| CPI inflation | **0.7% below RPI until 31 March 2019 and 1.2% below RPI thereafter** | 0.7% below RPI until 31 March 2019 and 1.2% below RPI thereafter | 0.7% below RPI until 31 March 2019 and 1.2% below RPI thereafter |

## 6 Financial instruments and risk management

*Fair value of financial assets and liabilities measured at amortised cost*

At 30 September 2017, the fair value of listed bonds and other long-term borrowings was £14,758m (31 March 2017: £13,496m) and the carrying value was £13,173m (31 March 2017: £11,757m) and fair value of finance leases £276m (31 March 2017: £273m) and carrying value was £233m (31 March 2017: £229m)

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

- Cash and cash equivalents
- Trade and other receivables
- Trade and other payables
- Provisions
- Investments classified as loans and receivables
- Other short term borrowings

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 2017.

*Fair value estimation*

Financial instruments measured at fair value consist of derivative financial instruments and investments classified as available-for-sale or designated at fair value through profit and loss. These instruments are further analysed by three levels of valuation methodology which are:

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

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

| 30 September 2017 | Level 1 £m | Level 2 £m | Level 3 £m | Total held at fair value £m |
|---|---|---|---|---|
| **Investments** | | | | |
| Available for sale | **26** | **2,503** | **15** | **2,544** |
| Fair value through profit and loss | **6** | **-** | **-** | **6** |
| **Derivative assets** | | | | |
| Designated in a hedge | **-** | **1,811** | **-** | **1,811** |
| Fair value through profit and loss | **-** | **302** | **-** | **302** |
| **Total assets** | **32** | **4,616** | **15** | **4,663** |
| **Derivative liabilities** | | | | |
| Designated in a hedge | **-** | **595** | **-** | **595** |
| Fair value through profit and loss | **-** | **238** | **-** | **238** |
| **Total liabilities** | **-** | **833** | **-** | **833** |

| 31 March 2017 | Level 1 £m | Level 2 £m | Level 3 £m | Total held at fair value £m |
|---|---|---|---|---|
| **Investments** | | | | |
| Available for sale | 21 | 1,437 | 16 | 1,474 |
| Fair value through profit and loss | 7 | - | - | 7 |
| **Derivative assets** | | | | |
| Designated in a hedge | - | 1,925 | - | 1,925 |
| Fair value through profit and loss | - | 321 | - | 321 |
| **Total assets** | 28 | 3,683 | 16 | 3,727 |
| **Derivative liabilities** | | | | |
| Designated in a hedge | - | 641 | - | 641 |
| Fair value through profit and loss | - | 262 | - | 262 |
| **Total liabilities** | - | 903 | - | 903 |

No gains or losses have been recognised in the income statement in respect of Level 3 assets held at 30 September 2017. There were no changes to the valuation methods or transfers between levels 1, 2 and 3 during the half year.

## 7 Share capital

In the half year to 30 September 2017, 32.1m shares (HY 2016/17: 45.6m) at a total cost of £109m (HY 2016/17: £206m), calculated at a weighted average cost per share, were transferred from own shares to satisfy obligations under all-employee and executive share plans. We received cash proceeds of £46m (HY 2016/17: £60m). Own shares of £221m (HY 2016/17: £206m) were purchased during the half year completing our share buyback for the year.

The majority of the shares transferred from own shares were to satisfy all-employee share option maturities.

## 8 Financial commitments

Capital expenditure for property, plant and equipment and software contracted for at the balance sheet date but not yet incurred was £875m (30 September 2016: £957m; 31 March 2017: £889m). Programme rights commitments, mainly relating to football broadcast rights for which the licence period has not yet started, were £1,955m (30 September 2016: £1,449m; 31 March 2017: £2,644m).

## 9 Dividend

The Board has declared an interim dividend of 4.85p per share, flat year on year and totalling £480m (Q2 2016/17: £482m). It will be paid on 5 February 2018 to shareholders on the register on 29 December 2017. The ex-dividend date is 28 December 2017. The election date for participation in BT's Dividend Investment Plan in respect of this dividend is 29 December 2017. The final dividend for the year to 31 March 2017 of 10.55p, amounting to £1,044m, was approved at the Annual General Meeting on 12 July 2017 and paid on 4 September 2017.

## 10 Contingent liabilities

Legal Proceedings: there have been no material updates relating to the Legal Proceedings as disclosed in the Annual Report & Form 20-F 2017.

## 11 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 44 to 54 of the Annual Report & Form 20-F 2017 and are summarised below. All of them have the potential to have an adverse impact on our business, revenue, profits, assets, liquidity and capital resources.

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

There have been no significant changes to the principal risks and uncertainties in the half year to 30 September 2017. These principal risks and uncertainties continue to have the potential to impact our results or financial position during the remaining six months of the financial year.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct 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

| | |
|---|---|
| Gavin Patterson | Simon Lowth |
| Group Chief Executive | Group Chief Financial Officer |

1 November 2017

## INDEPENDENT REVIEW REPORT TO BT GROUP PLC

### Report on the condensed consolidated financial statements

*Our conclusion*

We have reviewed BT Group plc's consolidated financial statements (the "interim financial statements") in the half year financial report of BT Group plc for the six month period ended 30 September 2017. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

*What we have reviewed*

The interim financial statements comprise:

- the Group balance sheet as at 30 September 2017;
- the Group income statement and Group statement of comprehensive income for the half year to 30 September 2017;
- the Group cash flow statement for the half year to 30 September 2017;
- the Group statement of changes in equity for the half year to 30 September 2017; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half year financial report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Responsibilities for the interim financial statements and the review

*Our responsibilities and those of the directors*

The half year financial report, including the interim financial statements, 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 Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim 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 complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

*What a review of interim financial statements involves*

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, 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.
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 interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
1 November 2017

a) The maintenance and integrity of the BT Group plc 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 interim financial statements since they were initially presented on the website.

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

# Additional Information

### Notes

1) Our commentary focuses on the trading results on an adjusted basis, which is a non-GAAP measure, being before specific items. Unless otherwise stated, revenue, operating costs, earnings before interest, tax, depreciation and amortisation (EBITDA), operating profit, profit before tax, net finance expense, earnings per share (EPS) and normalised free cash flow are measured before specific items. This is consistent with the way that financial performance is measured by management and 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. Reported revenue, reported operating costs, 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 underlying revenue excluding transit, underlying operating costs excluding transit, EBITDA, underlying EBITDA, net debt and free cash flow to the nearest measures prepared in accordance with IFRS are provided in this Additional Information.

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

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

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

| | Second quarter to 30 September | | Half year to 30 September | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **£m** | £m | **£m** | £m |
| Reported profit before tax | **666** | 671 | **1,084** | 1,388 |
| Share of post tax losses (profits) of associates and joint ventures | **-** | - | **-** | 7 |
| Net finance expense | **184** | 199 | **368** | 405 |
| **Operating profit** | **850** | 870 | **1,452** | 1,800 |
| Depreciation and amortisation | **892** | 869 | **1,757** | 1,724 |
| **EBITDA** | **1,742** | 1,739 | **3,209** | 3,524 |
| EBITDA specific items | **69** | 149 | **387** | 182 |
| **Adjusted[1] EBITDA** | **1,811** | 1,888 | **3,596** | 3,706 |

[1] See Glossary on page 2

### Free cash flow

Free cash flow and normalised free cash flow are not measures defined under IFRS but are key indicators used by management to assess operational performance. A reconciliation from cash generated from operations, the most directly comparable IFRS measure, to free cash flow and normalised free cash flow, is set out below.

| | Second quarter to 30 September | | Half year to 30 September | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **£m** | £m | **£m** | £m |
| **Cash generated from operations** | **1,369** | 1,849 | **2,766** | 3,286 |
| Tax paid | **(99)** | (115) | **(181)** | (218) |
| **Net cash inflows from operating activities** | **1,270** | 1,734 | **2,585** | 3,068 |
| Add back pension deficit payments | **5** | 8 | **10** | 13 |
| **Included in cash flows from investing activities** | | | | |
| Net purchase of property, plant and equipment and software | **(870)** | (751) | **(1,654)** | (1,462) |
| Interest received | **2** | 2 | **2** | 5 |
| Net purchase of non-current asset investments | **-** | (21) | **-** | (21) |
| **Included in cash flows from financing activities** | | | | |
| Interest paid | **(86)** | (96) | **(259)** | (287) |
| **Free cash flow[1]** | **321** | 876 | **684** | 1,316 |
| Net cash flow from specific items | **382** | 62 | **589** | 114 |
| Cash tax benefit of pension deficit payments | **(14)** | (44) | **(28)** | (88) |
| **Normalised free cash flow[1]** | **689** | 894 | **1,245** | 1,342 |

### Net debt

Net debt is not a measure defined under IFRS but is a key indicator used by management to assess operational performance. A reconciliation from loans and other borrowings, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures, to net debt, is set out below.

| | 30 September 2017 | 30 September 2016 | 31 March 2017 |
|---|---|---|---|
| | **£m** | £m | £m |
| Loans and other borrowings[2] | **14,065** | 14,350 | 12,713 |
| Cash and cash equivalents | **(353)** | (573) | (528) |
| Current asset investments | **(2,572)** | (2,379) | (1,520) |
| | **11,140** | 11,398 | 10,665 |
| Adjustments: | | | |
| To re-translate currency denominated balances at swapped rates when hedged[3] | **(1,313)** | (1,433) | (1,419) |
| To remove fair value adjustments and accrued interest applied to reflect the effective interest method[4] | **(307)** | (398) | (314) |
| **Net debt** | **9,520** | 9,567 | 8,932 |

[1] See Glossary on page 2
[2] Revised, see note 1 to the condensed consolidated income statement
[3] The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency
[4] Includes remaining fair value adjustments made on certain loans and other borrowings and accrued interest at the balance sheet date

### Reconciliation of year on year trends in underlying revenue and underlying operating costs excluding transit

Year on year trends in underlying revenue and underlying operating costs excluding transit are measures which seek to reflect the underlying performance that will contribute to long-term profitable growth. A reconciliation from the trends in reported revenue and reported operating costs, the most directly comparable IFRS measures, to the trends in underlying revenue and underlying operating costs excluding transit, are set out below.

| | Second quarter to 30 September 2017 | Half year to 30 September 2017 |
|---|---|---|
| | % | % |
| **Decrease in reported revenue** | **(1.0)** | **-** |
| Specific items | (0.7) | (0.2) |
| **Decrease in adjusted[1] revenue** | **(1.7)** | **(0.2)** |
| Transit revenue | 0.7 | 0.5 |
| Acquisitions and disposals | 0.1 | 0.2 |
| Foreign exchange movements | (0.6) | (1.2) |
| **Decrease in underlying[1] revenue excluding transit** | **(1.5)** | **(0.7)** |

| | Second quarter to 30 September 2017 | Half year to 30 September 2017 |
|---|---|---|
| | % | % |
| **(Decrease) increase in reported operating costs** | **(0.7)** | **3.5** |
| Depreciation and amortisation | (0.7) | 0.4 |
| **(Decrease) increase in reported operating costs[2]** | **(1.4)** | **3.9** |
| Specific items | 0.8 | (2.9) |
| **(Decrease) increase in adjusted[1] operating costs** | **(0.6)** | **1.0** |
| Transit costs | 1.0 | 0.9 |
| Acquisitions and disposals | 0.1 | 0.2 |
| Foreign exchange movements | (0.8) | (1.5) |
| **(Decrease) increase in underlying[1] operating costs excluding transit** | **(0.3)** | **0.6** |

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

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

| | Second quarter to 30 September 2017 | Half year to 30 September 2017 |
|---|---|---|
| | % | % |
| **Increase (decrease) in EBITDA** | **0.2** | **(8.9)** |
| Specific items | (4.3) | 5.9 |
| **Decrease in adjusted[1] EBITDA** | **(4.1)** | **(3.0)** |
| Acquisitions and disposals | 0.1 | 0.1 |
| Foreign exchange movements | (0.1) | (0.4) |
| **Decrease in underlying[1] EBITDA** | **(4.1)** | **(3.3)** |

[1] See Glossary on page 2
[2] Before depreciation and amortisation

## Forward-looking statements – caution advised

Certain statements in this results release are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: our outlook for 2017/18 including revenue, EBITDA, free cash flow and progressive dividends; our deployment of ultrafast broadband and roll out of G.fast technology; and our investment in the roll out of 4G and FTTP and our move to all-IP.

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 whether as a result of the uncertainties arising from the UK's exit from the EU or otherwise; future regulatory and legal actions, decisions, outcomes of appeal and conditions or requirements in BT's operating areas, including the outcome of Ofcom's strategic review of digital communications in the UK, and the implementation of the DCR commitments, as well as competition from others; consultations and market reviews including the outcome of Ofcom's consultations on the Wholesale Local Access market and forthcoming spectrum auctions; selection by BT and its lines of business 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, or impact on customer service; developments in the convergence of technologies; external threats to cyber security, data or resilience; political and geo-political risks; the anticipated benefits and advantages of new technologies, products and services not being realised, including the proposed investment in our FTTP broadband network; the timing of entry and profitability of BT in certain 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 anticipated benefits, synergies and cost savings of the EE integration not being delivered; the improvements to the control environment proposed following the investigations into BT's Italian business not being implemented successfully, effectively or timeously across the Group; the outcome of the BTPS triennial valuation and discussions on the pensions review; 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.

## About BT

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

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

## Enquiries

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We will hold the second quarter and half year 2017/18 results presentation for analysts and investors in London at 9am today and a simultaneous webcast will be available at www.bt.com/results

We are scheduled to announce our third quarter results for 2017/18 on Friday 2 February 2018.