

# Financial results



30 October 2014

## BT GROUP PLC

### RESULTS FOR THE SECOND QUARTER AND HALF YEAR TO 30 SEPTEMBER 2014

BT Group plc (BT.L) today announced its results for the second quarter and half year to 30 September 2014.

	Second quarter to 30 September 2014		Half year to 30 September 2014	
	£m	Change	£m	Change
Revenue <sup>1</sup>	<b>4,383</b>	(2)%	<b>8,737</b>	(2)%
Underlying revenue <sup>2</sup> excluding transit		0.2%		0.3%
EBITDA <sup>1</sup>	<b>1,450</b>	1%	<b>2,885</b>	0%
Profit before tax				
- adjusted <sup>1</sup>	<b>690</b>	13%	<b>1,328</b>	10%
- reported	<b>563</b>	13%	<b>1,109</b>	17%
Earnings per share				
- adjusted <sup>1</sup>	<b>6.9p</b>	15%	<b>13.4p</b>	13%
- reported	<b>5.6p</b>	(28)%	<b>11.2p</b>	(8)%
Interim dividend			<b>3.9p</b>	15%
Normalised free cash flow <sup>3</sup>	<b>533</b>	£(77)m	<b>655</b>	£105m
Net debt			<b>7,063</b>	£(1,011)m

#### Gavin Patterson, Chief Executive, commenting on the results, said:

"This was a solid quarter, with results slightly ahead of market expectations as we reduced costs and grew EBITDA. Profit before tax was up 13 per cent.

"Our Consumer business continues to perform well thanks to the impact of BT Sport where Premier League audiences are up around 45 per cent on average. Fibre is also driving growth with one in three of our retail broadband customers enjoying super-fast speeds.

"Our fibre footprint has increased to more than 21 million premises and will continue to grow. We continue to see strong demand across the market for the faster speeds that fibre offers.

"Further improving customer service remains a priority and Openreach is recruiting an additional 500 engineers to help us better serve our customers. We have also launched a range of new cloud-based products and services aimed at the business market.

"We are delivering on our strategy and our outlook remains unchanged. Our confidence enables us to raise our interim dividend by 15 per cent to 3.9p."

#### Key points for the second quarter:

- Underlying revenue<sup>2</sup> excluding transit up 0.2%
- Underlying operating costs<sup>4</sup> excluding transit down 1%
- EBITDA<sup>1</sup> up 1% and earnings per share<sup>1</sup> up 15%
- 344,000 Openreach fibre broadband net connections, up 9%
- Interim dividend up 15% to 3.9p
- Outlook reaffirmed

<sup>1</sup> Before specific items. Specific items are defined on page 3

<sup>2</sup> Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals

<sup>3</sup> Before specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments

<sup>4</sup> Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals, and is before depreciation and amortisation

**GROUP RESULTS FOR THE SECOND QUARTER AND HALF YEAR TO 30 SEPTEMBER 2014**

	Second quarter to 30 September			Half year to 30 September		
	2014	2013	Change	2014	2013	Change
	£m	£m	%	£m	£m	%
<b>Revenue</b>						
- adjusted <sup>1</sup>	<b>4,383</b>	4,491	(2)	<b>8,737</b>	8,940	(2)
- reported	<b>4,441</b>	4,491	(1)	<b>8,795</b>	8,940	(2)
- underlying revenue excluding transit			0.2%			0.3%
<b>EBITDA</b>						
- adjusted <sup>1</sup>	<b>1,450</b>	1,434	1	<b>2,885</b>	2,874	0
- reported	<b>1,396</b>	1,382	1	<b>2,787</b>	2,738	2
<b>Operating profit</b>						
- adjusted <sup>1</sup>	<b>832</b>	757	10	<b>1,615</b>	1,500	8
- reported	<b>778</b>	705	10	<b>1,517</b>	1,364	11
<b>Profit before tax</b>						
- adjusted <sup>1</sup>	<b>690</b>	609	13	<b>1,328</b>	1,204	10
- reported	<b>563</b>	499	13	<b>1,109</b>	948	17
<b>Earnings per share</b>						
- adjusted <sup>1</sup>	<b>6.9p</b>	6.0p	15	<b>13.4p</b>	11.9p	13
- reported	<b>5.6p</b>	7.8p	(28)	<b>11.2p</b>	12.2p	(8)
<b>Interim dividend</b>				<b>3.9p</b>	3.4p	15
<b>Capital expenditure<sup>2</sup></b>	<b>533</b>	595	(10)	<b>1,049</b>	1,191	(12)
<b>Normalised free cash flow<sup>3</sup></b>	<b>533</b>	610	(13)	<b>655</b>	550	19
<b>Net debt</b>				<b>7,063</b>	8,074	£(1,011)m

**Line of business results<sup>1</sup>**

	Revenue			EBITDA			Free cash flow <sup>3</sup>		
	2014	2013 <sup>4</sup>	Change	2014	2013 <sup>4</sup>	Change	2014	2013 <sup>4</sup>	Change
Second quarter to 30 September	£m	£m	%	£m	£m	%	£m	£m	%
BT Global Services	<b>1,649</b>	1,743	(5)	<b>226</b>	222	2	<b>35</b>	91	(62)
BT Business	<b>789</b>	799	(1)	<b>258</b>	247	4	<b>231</b>	217	6
BT Consumer	<b>1,056</b>	987	7	<b>225</b>	158	42	<b>105</b>	11	n/m
BT Wholesale	<b>529</b>	624	(15)	<b>125</b>	159	(21)	<b>60</b>	154	(61)
Openreach	<b>1,245</b>	1,271	(2)	<b>627</b>	642	(2)	<b>339</b>	311	9
Other and intra-group items	<b>(885)</b>	(933)	5	<b>(11)</b>	6	n/m	<b>(237)</b>	(174)	(36)
<b>Total</b>	<b>4,383</b>	4,491	(2)	<b>1,450</b>	1,434	1	<b>533</b>	610	(13)

<sup>1</sup> Before specific items

<sup>2</sup> Before purchases of telecommunications licences

<sup>3</sup> Before specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments

<sup>4</sup> Certain results have been restated. See Note 1 to the condensed consolidated financial statements

n/m = not meaningful

**Notes:**

1. The 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. In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Specific items may not be comparable with similarly titled measures used by other companies. Reported revenue, reported operating costs, reported EBITDA, reported operating profit, reported profit before tax, reported net finance expense, reported EPS and reported free cash flow are the equivalent unadjusted or statutory measures.
2. Trends in underlying revenue, trends in underlying operating costs, and underlying EBITDA are non-GAAP measures which seek to reflect the underlying performance of the group that will contribute to long-term profitable growth and as such exclude the impact of acquisitions and disposals, foreign exchange movements and any specific items. We focus on the trends in underlying revenue and underlying operating costs excluding transit as transit traffic is low-margin and is significantly affected by reductions in mobile termination rates.

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The second quarter and half year 2014/15 results presentation for analysts and investors will be held in London at 9.00am today and a simultaneous webcast will be available at [www.bt.com/results](http://www.bt.com/results)

Results for the third quarter to 31 December 2014 are expected to be announced on Friday 30 January 2015.

**About BT**

BT is one of the world's leading providers of communications services and solutions, serving customers in more than 170 countries. Its principal activities include the provision of networked IT services globally; local, national and international telecommunications services to its customers for use at home, at work and on the move; broadband and internet products and services and converged fixed/mobile products and services. BT consists principally of five customer-facing lines of business: BT Global Services, BT Business, BT Consumer, BT Wholesale and Openreach.

For the year ended 31 March 2014, BT Group's reported revenue was £18,287m with reported profit before taxation of £2,312m.

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](http://www.btplc.com)

## BT Group plc

### GROUP RESULTS FOR THE SECOND QUARTER TO 30 SEPTEMBER 2014

#### Overview

Our key measure of the group's revenue trend, underlying revenue excluding transit, increased 0.2% in the second quarter. A 7% revenue increase in BT Consumer, primarily driven by growth in broadband and TV revenue, was offset by reductions elsewhere, mainly in BT Wholesale and Openreach.

We are pleased with the performance of BT Sport which has contributed to top and bottom-line growth in BT Consumer. Ofcom's Narrowband Market Review and the migration of services off a previously terminated contract continued to affect BT Wholesale. Together, these accounted for around two-thirds of the decline in BT Wholesale's underlying revenue excluding transit. In Openreach, regulatory price changes more than offset 38% growth in fibre broadband revenue. BT Global Services continues to be impacted by lower revenue in the UK public sector but delivered a strong revenue performance in the high-growth regions of the world. BT Business revenue declined, reflecting lower call and line volumes, but by less than in the first quarter.

Our cost transformation programmes have generated a 1% increase in EBITDA. Excluding foreign exchange movements, underlying EBITDA was up 2%.

Order intake on a rolling twelve-month basis was down 14% in BT Global Services and 30% in BT Wholesale, reflecting some large contract wins and renewals a year earlier, whilst BT Business order intake was up 5%.

In the quarter we launched a number of new and innovative solutions for our customers, including BT Assure Threat Defence in BT Global Services and a new BT Business IP service, BT Cloud Voice. In BT Consumer we launched the BT8500 phone, which is our most advanced nuisance call blocking phone to date. BT Wholesale launched Wholesale Hosted Centrex, our white-label unified communications service, which is hosted in the cloud and offers all the benefits of accessing IP services from any device and location.

We have passed more than 21m premises with our fibre broadband network. Openreach achieved 344,000 fibre broadband net connections, 9% more than last year, and around 3.4m homes and businesses are now connected, 16% of those passed. We have more than 2.5m retail fibre broadband customers, having added 203,000 this quarter. The UK broadband market<sup>1</sup> grew by 182,000, of which our share was 88,000 or 48%.

#### Income statement

Adjusted revenue of £4,383m was down 2% reflecting a £77m negative impact from foreign exchange movements, a £36m reduction in transit revenue and a £2m impact from disposals. Underlying revenue excluding transit was up 0.2%. Reported revenue, which includes specific items, was down 1%.

Operating costs<sup>2</sup> decreased 4% to £2,933m. Underlying operating costs<sup>3</sup> excluding transit were down 1% with our cost transformation activities more than offsetting higher cost of sales.

Net labour costs decreased 5%, or 4% excluding foreign exchange movements due to the savings achieved by our group-wide restructuring programme. Payments to telecommunications operators were down 14% primarily reflecting lower transit volumes in BT Wholesale and lower call volumes. Property and energy, network operating and IT, and other costs decreased 1% reflecting higher contract and equipment costs offset by favourable foreign exchange movements. BT Sport programme rights charges were £83m (Q2 2013/14: £50m).

Adjusted EBITDA of £1,450m was up 1%. Depreciation and amortisation of £618m was down 9%, mainly reflecting the more efficient delivery of our capital expenditure programmes over the last few years and some of our assets becoming fully depreciated. Adjusted net finance expense was £143m, down £5m.

Adjusted profit before tax was £690m, up 13% reflecting the decline in depreciation and amortisation. Reported profit before tax (which includes specific items) was £563m, also up 13%. The effective tax rate on the profit before specific items was 19.9% (Q2 2013/14: 22.3%).

Adjusted EPS of 6.9p was up 15%. Reported EPS was 5.6p, down 28% reflecting the impact of specific items. Our EPS measures are based on a weighted average number of shares in issue of 8,027m (Q2 2013/14: 7,864m).

<sup>1</sup> DSL and fibre

<sup>2</sup> Before depreciation and amortisation

<sup>3</sup> Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals, and is before depreciation and amortisation

### **Specific items**

Specific items resulted in a net charge after tax of £107m (Q2 2013/14: credit of £140m). Net interest expense on pensions was £73m (Q2 2013/14: £58m). Restructuring charges of £60m (Q2 2013/14: £52m) were incurred as part of our group-wide restructuring programme and relate primarily to leavers and property and network rationalisation. Regulatory items (see below) have resulted in a net credit to specific items of £5m (Q2 2013/14: £nil) and we recognised a £1m profit (Q2 2013/14: £nil) on the disposal of a subsidiary. The tax credit on specific items was £20m (Q2 2013/14: £19m). Specific items last year benefited from a £231m deferred tax credit.

### **Capital expenditure**

Capital expenditure<sup>1</sup> of £533m was down 10% reflecting the phasing of expenditure within the year and was net of £94m grant funding (Q2 2013/14: £15m) relating to our activity on the Broadband Delivery UK (BDUK) programme.

### **Free cash flow**

Normalised free cash flow<sup>2</sup> was an inflow of £533m, a decrease of 13% compared with the prior year, but 19% higher at £655m for the six months to 30 September 2014. The decline in the quarter mainly reflects movements in working capital and higher tax payments, partly offset by lower capital expenditure.

The net cash cost of specific items was £75m (Q2 2013/14: £72m) mainly comprising restructuring costs of £54m (Q2 2013/14: £50m) and property rationalisation costs of £7m (Q2 2013/14: £18m). After specific items and a £19m (Q2 2013/14: £19m) cash tax benefit from pension deficit payments, reported free cash flow was an inflow of £477m (Q2 2013/14: £557m).

### **Net debt and liquidity**

Net debt was £7,063m at 30 September 2014, a decrease of £16m since 30 June 2014 and £1,011m lower than at 30 September 2013. In the quarter, reported free cash flow of £477m and proceeds of £188m from the exercise of employee share options were offset by payments of £603m on dividends and £56m on our share buyback programme. This quarter we acquired 12m shares and so far this year we have spent £197m on our share buyback programme. We continue to expect to spend around £300m for the year as a whole.

Debt of £0.5bn matured in July and a further £0.2bn is repayable during the remainder of 2014/15. At 30 September 2014 the group had cash and current investment balances of £1.8bn and a £1.5bn credit facility, providing us with a strong liquidity and funding position. We renegotiated our credit facility which now runs to September 2019, with the option in the next two years to request an extension up to September 2021.

### **Pensions**

The IAS 19 net pension position at 30 September 2014 was a deficit of £5.9bn net of tax (£7.3bn gross of tax) compared with £5.8bn (£7.2bn gross of tax) at 30 June 2014. The higher deficit primarily reflects a fall in the real discount rate to 0.82%, its lowest ever quarter-end level. The IAS 19 accounting position and key assumptions are provided in Note 10.

In the quarter the BT Pension Scheme ('the Scheme') entered into arrangements with an insurance company wholly owned by the Scheme to hedge over 25% of the Scheme's exposure to potential increases in longevity. The risk has in turn been reinsured with an independent third-party. These arrangements required no additional cash contributions from BT and had no impact on our results for the quarter or half year.

On 16 July 2014 the Court of Appeal handed down its judgment on the scope and extent of the Crown Guarantee, which was granted by the Government on BT's privatisation. We are continuing to consider the judgment and its consequences in detail. The Crown Guarantee is not taken into account for the purposes of the actuarial valuation of the Scheme and is an entirely separate matter, only being relevant in the highly unlikely event that BT became insolvent.

We are continuing work on the triennial actuarial valuation of the Scheme which will be calculated as at 30 June 2014.

<sup>1</sup> Before purchases of telecommunications licences

<sup>2</sup> Before specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments

## **Regulation**

In July 2014 the Supreme Court overturned a Court of Appeal judgment, made in July 2012, which had disallowed our ladder pricing policy. Following the Court of Appeal's judgment, in Q2 2012/13 we recognised specific item charges of £85m and £58m against revenue and EBITDA respectively. Having reviewed the Supreme Court judgment, we consider the position sufficiently certain to reinstate some of the previously reversed revenues, and have recognised a specific item credit of £58m this quarter. On receipt of the Supreme Court Order we will start the process to recover the money that was refunded to the mobile operators as a result of the Court of Appeal ruling. We also intend to pursue claims for other historical termination charges. Any ongoing benefit for the period after the Supreme Court's judgment will depend on whether the mobile operators alter their pricing which would impact the termination rates we charge them.

We have not recognised any benefit from ladder pricing in our trading results for the quarter. All ladder pricing will cease from the end of June 2015 when new pricing arrangements for Non-Geographic Call Services in the UK come into effect.

On 1 August 2014 the Competition Appeal Tribunal (CAT) handed down judgment on various appeals brought against a December 2012 Ofcom determination on the pricing of certain Ethernet products. We disagree with the CAT's judgment and have applied for permission to appeal to the Court of Appeal. Ofcom had determined that BT had overcharged for certain services between 1 April 2006 and 31 March 2011, and required BT to make repayments. The CAT judged that BT should also pay interest on these amounts. Together with a review of our regulatory risk position in relation to other historical matters, we have recognised a specific item charge of £53m this quarter.

In October 2014 Ofcom found no grounds for action in its final decision on a complaint which alleged that BT had abused its dominant position, by squeezing the margin between the prices BT Consumer charged for some of its fibre broadband products and the wholesale price charged by Openreach.

## **Dividends**

In line with our full year outlook for 10 - 15% growth in dividends per share, the Board has declared an interim dividend of 3.9p per share, up 15%, and totalling £316m (Q2 2013/14: £268m). It will be paid on 9 February 2015 to shareholders on the register on 30 December 2014. The ex-dividend date is 29 December 2014. The election date for participation in BT's Dividend Investment Plan in respect of this dividend is also 29 December 2014. The final dividend for the year to 31 March 2014 of 7.5p, amounting to £609m, was approved at the Annual General Meeting on 16 July 2014.

## **Outlook**

Our outlook is unchanged. We continue to expect underlying revenue excluding transit in 2014/15 to be broadly level with 2013/14 with growth in 2015/16. We expect adjusted EBITDA of £6.2bn - £6.3bn in 2014/15 with further growth in 2015/16. Normalised free cash flow is expected to be above £2.6bn in 2014/15 and to grow in 2015/16.

We intend to continue our policy of reducing net debt and are targeting a BBB+/Baa1 credit rating over the medium term. We expect to grow our dividend by 10% - 15% in both 2014/15 and 2015/16. We also intend to maintain our share buyback of around £300m in each of these years, to help counteract the dilutive effect of all-employee share option plans maturing over this period.

## GROUP RESULTS FOR THE HALF YEAR TO 30 SEPTEMBER 2014

### Income statement

Our key measure of the group's revenue trend, underlying revenue excluding transit, was up 0.3% in the first half reflecting growth in BT Consumer, which was partly offset by revenue declines elsewhere, including the impact of regulatory price reductions. Adjusted revenue of £8,737m was down 2% with a £148m negative impact from foreign exchange movements, an £82m reduction in transit revenue and a £2m impact from disposals.

Operating costs<sup>1</sup> were down 4%. Underlying operating costs<sup>2</sup> excluding transit were flat.

Net labour costs decreased 5%, or 3% excluding foreign exchange movements. Payments to telecommunications operators were down 16% due to lower transit volumes in BT Wholesale and lower call volumes. Property and energy, network operating and IT, and other costs decreased 1%. Programme rights charges increased to £161m (HY 2013/14: £50m) reflecting the launch of BT Sport in August last year.

Adjusted EBITDA was flat at £2,885m. Excluding foreign exchange movements, underlying EBITDA was up 1%.

Depreciation and amortisation of £1,270m was down 8% mainly reflecting the more efficient delivery of our capital expenditure programmes over the last few years and some of our assets becoming fully depreciated. Adjusted net finance expense was £288m, down 2%.

Adjusted profit before tax of £1,328m was up 10% reflecting the decline in depreciation and amortisation. Reported profit before tax (which includes specific items) was £1,109m, up 17%.

The effective tax rate on the profit before specific items was 19.9% (HY 2013/14: 22.5%).

Adjusted EPS was 13.4p, up 13%, and reported EPS (which includes specific items) was 11.2p, down 8%. These are based on a weighted average number of shares in issue of 7,942m (HY 2013/14: 7,852m).

### Specific items

Specific items resulted in a net charge after tax of £177m (HY 2013/14: credit of £26m). Specific items include net interest expense on pensions of £146m (HY 2013/14: £117m) and group-wide restructuring charges of £104m (HY 2013/14: £136m). Regulatory items have resulted in a net credit to specific items of £5m (HY 2013/14: £nil) (see Regulation above). We recognised a £25m profit (HY 2013/14: £3m loss) on the disposal of an interest in an associate and a £1m profit (HY 2013/14: £nil) on the disposal of a subsidiary. The tax credit on specific items was £42m (HY 2013/14: £51m). Specific items last year benefited from a £231m deferred tax credit.

### Capital expenditure

Capital expenditure<sup>3</sup> of £1,049m was down 12% reflecting the phasing of expenditure within the year.

### Free cash flow

Normalised free cash flow<sup>4</sup> was an inflow of £655m, an increase of £105m compared with the prior year reflecting lower capital expenditure and movements in working capital, partly offset by higher tax payments.

The net cash cost of specific items was £155m (HY 2013/14: £206m) and mainly comprised restructuring costs of £117m (HY 2013/14: £156m) and property rationalisation costs of £16m (HY 2013/14: £30m).

After specific items and a £38m (HY 2013/14: £39m) cash tax benefit from pension deficit payments, reported free cash flow was an inflow of £538m (HY 2013/14: £383m).

### Principal risks and uncertainties

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

<sup>1</sup> Before depreciation and amortisation

<sup>2</sup> Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals, and is before depreciation and amortisation

<sup>3</sup> Before purchases of telecommunications licences

<sup>4</sup> Before specific items, purchases of telecommunications licences, pension deficit payments and the cash tax benefit of pension deficit payments

## OPERATING REVIEW

### BT Global Services

	Second quarter to 30 September				Half year to 30 September			
	2014 £m	2013 <sup>1</sup> £m	Change		2014 £m	2013 <sup>1</sup> £m	Change	
			£m	%			£m	%
Revenue	<b>1,649</b>	1,743	(94)	(5)	<b>3,296</b>	3,495	(199)	(6)
- underlying excluding transit				(1)				(1)
Operating costs	<b>1,423</b>	1,521	(98)	(6)	<b>2,857</b>	3,063	(206)	(7)
EBITDA	<b>226</b>	222	4	2	<b>439</b>	432	7	2
Depreciation & amortisation	<b>124</b>	152	(28)	(18)	<b>264</b>	305	(41)	(13)
Operating profit	<b>102</b>	70	32	46	<b>175</b>	127	48	38
Capital expenditure	<b>116</b>	125	(9)	(7)	<b>222</b>	241	(19)	(8)
Operating cash flow	<b>35</b>	91	(56)	(62)	<b>(302)</b>	(171)	(131)	(77)

<sup>1</sup> Restated, see Note 1 to the condensed consolidated financial statements

Revenue declined 5% mainly reflecting a £71m negative impact from foreign exchange movements. Transit revenue decreased £5m. Underlying revenue excluding transit decreased 1%, an improved performance compared with the first quarter.

As expected, public sector revenue in the UK declined due to lower levels of expenditure in the sector and our focus on only pursuing business that generates economic value. The decline was partially offset by an increase in underlying revenue in the high-growth regions of Asia Pacific, Latin America, Turkey and the Middle East and Africa.

Total order intake was £1.3bn. This was down 14% reflecting a large contract renewal with Unilever in the prior year. Order intake was £6.1bn on a rolling twelve-month basis, also down 14%.

We signed contracts across all of our key geographies including with: Deutsche Post DHL, for managed communications services connecting 1,100 sites in 28 countries across Asia Pacific; Interserve, for a broad range of communications solutions in the UK, including 4G mobile services; Société Générale, for voice and data communications services across 30 countries; and Legrand, to provide and maintain its network, security and telephony infrastructure in 50 countries.

During the quarter, we extended our range of services and further expanded the reach of our global network. We introduced BT Assure Threat Defence to help our customers better identify and react to advanced and sophisticated cyber security threats. We announced BT Compute Storage which provides cloud-based file management services suitable for large enterprises, and we added interconnected cloud-enabled data centres in Argentina, Japan and South Africa. We are investing further and will be: adding 11 new BT Points of Presence in nine countries; making our Ethernet Connect service available in 15 new countries, bringing the total served to 65; and increasing the reach of BT Internet Connect Global to more than 50 countries.

Operating costs declined 6%. Underlying operating costs excluding transit declined 2% as we continued to focus on cost transformation.

EBITDA increased 2%. Excluding foreign exchange movements, underlying EBITDA increased 5%. Depreciation and amortisation reduced 18% mainly due to lower capital expenditure in recent years and some of our assets becoming fully depreciated.

Capital expenditure declined 7%. Operating cash flow was an inflow of £35m. This was £56m below last year due to the timing of contract-related receipts and the delay in some debtor receipts.



## BT Business

	Second quarter to 30 September				Half year to 30 September			
	2014	2013 <sup>1</sup>	Change		2014	2013 <sup>1</sup>	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue	<b>789</b>	799	(10)	(1)	<b>1,551</b>	1,584	(33)	(2)
- underlying excluding transit				(1)				(2)
Operating costs	<b>531</b>	552	(21)	(4)	<b>1,053</b>	1,101	(48)	(4)
EBITDA	<b>258</b>	247	11	4	<b>498</b>	483	15	3
Depreciation & amortisation	<b>45</b>	50	(5)	(10)	<b>88</b>	103	(15)	(15)
Operating profit	<b>213</b>	197	16	8	<b>410</b>	380	30	8
Capital expenditure	<b>32</b>	29	3	10	<b>56</b>	62	(6)	(10)
Operating cash flow	<b>231</b>	217	14	6	<b>421</b>	326	95	29

<sup>1</sup> Restated, see Note 1 to the condensed consolidated financial statements

Revenue and underlying revenue excluding transit were down 1%. This was an improvement compared with the first quarter, reflecting better performances in IT services and in data and networking revenue.

SME & Corporate voice revenue decreased 4%. The decline in call and line volumes has continued, with the number of business lines down 8%, partly reflecting the migration of customers to VoIP services. SME & Corporate data and networking revenue increased 2% helped by growth in fibre broadband. Business fibre broadband net additions were up 49% year on year.

IT services revenue increased 1%. Foreign exchange movements had a £6m negative impact on BT Ireland revenue. Its underlying revenue excluding transit increased 1% reflecting growth in wholesale customer revenue in the Republic of Ireland and fibre broadband in Northern Ireland.

Order intake for the quarter declined 2% to £463m but was up 5% to £2,101m on a rolling twelve-month basis.

In the quarter we launched BT One Phone, a new service that brings together all of a company's office phone system and mobile needs into a single service delivered on a mobile phone. We also launched a range of flexible new 4G mobile plans. To meet the changing needs of office-based small and medium-sized businesses, we introduced a new business-grade IP voice service, BT Cloud Voice. This provides all the call features and quality of a traditional office phone system, delivered over a BT internet connection, providing a more flexible and future-proofed service.

Operating costs were down 4%. Underlying operating costs excluding transit were down 3%, mainly reflecting the impact of our cost transformation programmes, including a 9% reduction in total labour resource. The lower costs offset the decline in revenue resulting in EBITDA growing 4%. Excluding foreign exchange movements, underlying EBITDA increased 5%.

Depreciation and amortisation was down 10% due to lower capital expenditure in recent years. This contributed to operating profit growing 8%.

Capital expenditure increased 10% due to phasing. Operating cash flow increased 6%, mainly driven by the increase in EBITDA, and was up 29% year to date.

## BT Consumer

	Second quarter to 30 September				Half year to 30 September			
	2014 £m	2013 £m	Change		2014 £m	2013 £m	Change	
			£m	%			£m	%
Revenue	<b>1,056</b>	987	69	7	<b>2,102</b>	1,937	165	9
Operating costs	<b>831</b>	829	2	-	<b>1,639</b>	1,548	91	6
EBITDA	<b>225</b>	158	67	42	<b>463</b>	389	74	19
Depreciation & amortisation	<b>54</b>	53	1	2	<b>109</b>	108	1	1
Operating profit	<b>171</b>	105	66	63	<b>354</b>	281	73	26
Capital expenditure	<b>52</b>	60	(8)	(13)	<b>91</b>	116	(25)	(22)
Operating cash flow	<b>105</b>	11	94	n/m	<b>332</b>	157	175	111

n/m = not meaningful

Revenue was up 7%, with 17% higher broadband and TV revenue reflecting the growth in our broadband and BT Sport customer bases. Calls and lines revenue grew 1%.

Fibre continued to grow with 203,000 BT retail fibre broadband net additions, taking our customer base to over 2.5m. 34% of our retail broadband customers are on fibre.

Overall Consumer ARPU continued to increase, growing 7% year on year to £404. Our Consumer line losses were 85,000 and BT added 88,000 retail broadband customers, 48% of the DSL and fibre broadband market net additions. Our share was lower than in recent quarters due to strong promotional activity in the market.

We added 38,000 TV customers in the quarter. We continue to focus on strengthening our TV proposition and are excited to announce we have entered into a partnership with Netflix that will allow our customers to sign up for Netflix alongside our other products and services, with the added convenience of paying on one bill directly through BT.

BT Wi-fi usage grew strongly, more than doubling year on year to 14.9bn minutes.

In the quarter we launched the BT8500 Advanced Call Blocker phone, which is our most sophisticated nuisance call blocking phone to date.

BT Sport has had a successful start to our second season of showing the Barclays Premier League with audience growth of around 45% on average, including a peak audience of 1.25m for the opening league fixture between Manchester United and Swansea City.

In the quarter we launched our new red button service, BT Sport Extra, which provides viewers with additional content alongside the line-up on BT Sport 1, BT Sport 2 and ESPN. We further enhanced our European football schedule by securing the rights to broadcast the DFB Cup, Germany's top domestic football cup competition, which will complement our existing Bundesliga coverage.

Operating costs were broadly flat as higher costs related to increased revenue and the recognition of a full quarter of BT Sport programme rights charges were offset by our cost transformation programmes.

EBITDA was up 42%, with a strong performance across voice and broadband and reflecting the additional revenue from BT Sport following its launch last year. Depreciation and amortisation increased 2% and operating profit was up 63%.

Capital expenditure reduced 13% reflecting our investment in BT Sport last year. Operating cash flow increased £94m driven by the growth in EBITDA and working capital movements.

## BT Wholesale

	Second quarter to 30 September				Half year to 30 September			
	2014	2013	Change		2014	2013	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue	<b>529</b>	624	(95)	(15)	<b>1,054</b>	1,262	(208)	(16)
- underlying excluding transit				(11)				(13)
Operating costs	<b>404</b>	465	(61)	(13)	<b>803</b>	946	(143)	(15)
EBITDA	<b>125</b>	159	(34)	(21)	<b>251</b>	316	(65)	(21)
Depreciation & amortisation	<b>55</b>	62	(7)	(11)	<b>114</b>	126	(12)	(10)
Operating profit	<b>70</b>	97	(27)	(28)	<b>137</b>	190	(53)	(28)
Capital expenditure	<b>53</b>	63	(10)	(16)	<b>106</b>	127	(21)	(17)
Operating cash flow	<b>60</b>	154	(94)	(61)	<b>71</b>	123	(52)	(42)

Revenue decreased 15% compared with an 18% decline in the first quarter. Transit revenue reduced by £34m.

Underlying revenue excluding transit decreased 11%, an improvement compared with the first quarter decline of 14%. The decline this quarter was primarily due to a 28% reduction in our traditional calls, lines and circuits revenue, including the impact of lower fixed termination rates following Ofcom's Narrowband Market Review.

Managed solutions revenue declined 16% reflecting the ongoing impact of the Post Office contract termination. Broadband revenue declined 20% as lines continue to migrate to LLU.

We continue to see strong growth in IP services, with revenue up 61%. Within IP services we have further expanded the range of products in our Hosted Communications Services portfolio. For example, we launched Wholesale Hosted Centrex, our white-label unified communications service, which uses a cloud-based Private Branch Exchange to offer all the benefits of accessing IP services from any device and location. We also announced an agreement with Avaya to deliver their unified communications and contact centre applications as a cloud service.

Order intake of £249m was down 39% mainly due to a large managed solutions deal last year. On a rolling twelve-month basis, order intake was £1,505m, down 30% due to the timing of re-signs on some of our major managed solutions deals.

Operating costs decreased 13%. Underlying operating costs excluding transit reduced 7%, including an 11% decline in selling and general administration costs. Our cost transformation activities have driven a 13% reduction in total labour costs.

EBITDA decreased 21% reflecting the lower revenue. Depreciation and amortisation decreased 11% and operating profit decreased 28%.

Capital expenditure declined 16% driven by lower spend on the Wholesale Broadband Connect rollout programme. Operating cash flow decreased £94m mainly because last year benefited from lower VAT payments.

## Openreach

	Second quarter to 30 September				Half year to 30 September			
	2014	2013	Change		2014	2013	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue	<b>1,245</b>	1,271	(26)	(2)	<b>2,490</b>	2,516	(26)	(1)
Operating costs	<b>618</b>	629	(11)	(2)	<b>1,239</b>	1,269	(30)	(2)
EBITDA	<b>627</b>	642	(15)	(2)	<b>1,251</b>	1,247	4	0
Depreciation & amortisation	<b>335</b>	355	(20)	(6)	<b>684</b>	724	(40)	(6)
Operating profit	<b>292</b>	287	5	2	<b>567</b>	523	44	8
Capital expenditure	<b>246</b>	268	(22)	(8)	<b>504</b>	548	(44)	(8)
Operating cash flow	<b>339</b>	311	28	9	<b>637</b>	580	57	10

Revenue was down 2% with regulatory price changes having a negative impact of around £45m, the equivalent of 4%. The regulatory impact was higher than in the first quarter due to price regulation effective from 1 July on Caller ID and certain service products. The impact of regulation in the quarter was partly offset by 38% growth in fibre broadband revenue.

The UK broadband market<sup>1</sup> increased by 182,000 connections in the quarter. The physical line base grew by 15,000, and has increased by 106,000 over the past twelve months.

We have passed more than 21m premises with our fibre broadband network. We achieved 344,000 fibre broadband net connections, an increase of 9%, bringing the number of homes and businesses connected to around 3.4m, 16% of those passed. Our external Communications Provider customers generated more than 40% of the net connections in the quarter. We are making progress with extending the reach of fibre beyond our commercial footprint. We passed around 570,000 premises in all 44 of our original BDUK areas, a run-rate of more than 25% above the first quarter.

We have run new field trials of 'ultrafast' Fibre To The Distribution Point (FTTdp) 'G.FAST' technology, where fibre is rolled out to telephone poles or junction boxes located close to premises. During the G.FAST trials, downstream speeds of around 800Mbps and upstream speeds of more than 200Mbps were achieved over a 19 metre length of copper. Speeds of around 700Mbps down and 200Mbps up were also achieved over longer lines of 66 metres, a distance that encompasses around 80% of premises.

Operating costs decreased 2% driven by cost efficiencies. EBITDA decreased 2% which was below the first quarter performance partly reflecting a smaller benefit from the sale of redundant copper and the impact of the additional regulatory price reductions. With depreciation and amortisation down 6%, operating profit was up 2%.

Capital expenditure decreased 8%. We received grant funding of £94m (Q2 2013/14: £15m) relating to the BDUK programme. Operating cash flow increased 9%.

<sup>1</sup> DSL and fibre

## FINANCIAL STATEMENTS

### Group income statement

For the second quarter to 30 September 2014

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	4,383	58	4,441
Operating costs	3	(3,551)	(112)	(3,663)
<b>Operating profit</b>		832	(54)	778
Finance expense		(147)	(73)	(220)
Finance income		4	-	4
<b>Net finance expense</b>		(143)	(73)	(216)
Share of post-tax profits of associates and joint ventures		1	-	1
<b>Profit before tax</b>		690	(127)	563
Tax		(137)	20	(117)
<b>Profit for the period</b>		553	(107)	446
<b>Earnings per share</b>				
- basic	9	6.9p		5.6p
- diluted		6.8p		5.5p

### Group income statement

For the second quarter to 30 September 2013

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
Revenue	2	4,491	-	4,491
Operating costs	3	(3,734)	(52)	(3,786)
<b>Operating profit</b>		757	(52)	705
Finance expense		(149)	(58)	(207)
Finance income		1	-	1
<b>Net finance expense</b>		(148)	(58)	(206)
<b>Profit before tax</b>		609	(110)	499
Tax		(136)	250	114
<b>Profit for the period</b>		473	140	613
<b>Earnings per share</b>				
- basic	9	6.0p		7.8p
- diluted		5.7p		7.4p

**Group income statement**

For the half year to 30 September 2014

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
<b>Revenue</b>	2	8,737	58	<b>8,795</b>
Operating costs	3	(7,122)	(156)	<b>(7,278)</b>
<b>Operating profit</b>		1,615	(98)	<b>1,517</b>
Finance expense		(295)	(146)	<b>(441)</b>
Finance income		7	-	<b>7</b>
<b>Net finance expense</b>		(288)	(146)	<b>(434)</b>
Share of post-tax profits of associates and joint ventures		1	-	<b>1</b>
Profit on disposal of interest in associate		-	25	<b>25</b>
<b>Profit before tax</b>		1,328	(219)	<b>1,109</b>
Tax		(264)	42	<b>(222)</b>
<b>Profit for the period</b>		1,064	(177)	<b>887</b>
<b>Earnings per share</b>				
- basic	9	13.4p		<b>11.2p</b>
- diluted		13.2p		<b>11.0p</b>

**Group income statement**

For the half year to 30 September 2013

	Note	Before specific items £m	Specific items (Note 4) £m	Total £m
<b>Revenue</b>	2	8,940	-	<b>8,940</b>
Operating costs	3	(7,440)	(136)	<b>(7,576)</b>
<b>Operating profit</b>		1,500	(136)	<b>1,364</b>
Finance expense		(298)	(117)	<b>(415)</b>
Finance income		4	-	<b>4</b>
<b>Net finance expense</b>		(294)	(117)	<b>(411)</b>
Share of post-tax losses of associates and joint ventures		(2)	-	<b>(2)</b>
Loss on disposal of interest in associate		-	(3)	<b>(3)</b>
<b>Profit before tax</b>		1,204	(256)	<b>948</b>
Tax		(271)	282	<b>11</b>
<b>Profit for the period</b>		933	26	<b>959</b>
<b>Earnings per share</b>				
- basic	9	11.9p		<b>12.2p</b>
- diluted		11.3p		<b>11.6p</b>

## Group statement of comprehensive income

For the second quarter and half year to 30 September

	Second quarter to 30 September		Half year to 30 September	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Profit for the period</b>	<b>446</b>	613	<b>887</b>	959
<b>Other comprehensive income (loss)</b>				
<b>Items that will not be reclassified to the income statement</b>				
Actuarial losses relating to retirement benefit obligations	(5)	(1,383)	(41)	(597)
Tax on actuarial losses	1	60	8	(121)
<b>Items that may be reclassified subsequently to the income statement</b>				
Exchange differences on translation of foreign operations	36	(107)	(27)	(120)
Fair value movements on available-for-sale assets	-	11	2	7
Fair value movements on cash flow hedges:				
- net fair value gains (losses)	104	(413)	(50)	(390)
- recognised in income and expense	(148)	286	26	249
Tax on components of other comprehensive income that may be reclassified	10	(44)	-	(43)
<b>Other comprehensive loss for the period, net of tax</b>	<b>(2)</b>	(1,590)	<b>(82)</b>	(1,015)
<b>Total comprehensive income (loss) for the period</b>	<b>444</b>	(977)	<b>805</b>	(56)

## Group statement of changes in equity

For the half year to 30 September 2014

	Share capital £m	Reserves £m	Total equity £m
<b>At 1 April 2014</b>	<b>408</b>	<b>(1,000)</b>	<b>(592)</b>
Total comprehensive income for the period	-	805	805
Dividends to shareholders	-	(609)	(609)
Share-based payments	-	36	36
Net buyback of Own shares	-	(5)	(5)
<b>At 30 September 2014</b>	<b>408</b>	<b>(773)</b>	<b>(365)</b>

For the half year to 30 September 2013

	£m	£m	£m
At 1 April 2013	408	(670)	(262)
Total comprehensive loss for the period	-	(56)	(56)
Dividends to shareholders	-	(512)	(512)
Share-based payments	-	4	4
Net buyback of Own shares	-	(100)	(100)
At 30 September 2013	408	(1,334)	(926)

## Group cash flow statement

For the second quarter and half year to 30 September

	Second quarter to 30 September		Half year to 30 September	
	2014 £m	2013 £m	2014 £m	2013 £m
Profit before tax	563	499	1,109	948
Depreciation and amortisation	618	677	1,270	1,374
Net finance expense	216	206	434	411
Profit on disposal of subsidiary	(1)	-	(1)	-
(Profit) loss on disposal of associate	-	-	(25)	3
Share of post-tax (profits) losses of associates and joint ventures	(1)	-	(1)	2
Share-based payments	18	16	36	34
Increase in working capital	(254)	(74)	(806)	(822)
Provisions, pensions and other non-cash movements	43	10	98	43
<b>Cash generated from operations</b>	<b>1,202</b>	<b>1,334</b>	<b>2,114</b>	<b>1,993</b>
Tax paid	(117)	(72)	(231)	(83)
<b>Net cash inflow from operating activities</b>	<b>1,085</b>	<b>1,262</b>	<b>1,883</b>	<b>1,910</b>
<b>Cash flow from investing activities</b>				
Interest received	2	2	4	3
Proceeds on disposal of property, plant and equipment	-	2	3	4
Acquisition of subsidiaries, net of cash acquired	(3)	(16)	(3)	(18)
Sale of subsidiaries, net of cash and bank overdrafts	2	-	2	-
Acquisition of associates and joint ventures	(1)	-	(3)	(2)
Disposal of associates and joint ventures	1	-	26	2
Purchases of property, plant and equipment and software	(521)	(636)	(1,054)	(1,238)
Net purchase of non-current asset investments	-	-	(2)	-
Purchase of current financial assets	(1,697)	(1,797)	(4,112)	(4,291)
Sale of current financial assets	2,180	1,876	4,734	3,907
<b>Net cash used in investing activities</b>	<b>(37)</b>	<b>(569)</b>	<b>(405)</b>	<b>(1,633)</b>
<b>Cash flow from financing activities</b>				
Interest paid	(89)	(73)	(296)	(296)
Equity dividends paid	(603)	(507)	(604)	(508)
New borrowings	-	7	812	400
Repayment of borrowings	(520)	(2)	(1,151)	(3)
Repayment of finance lease liabilities	-	(11)	-	(11)
Cash flows from derivatives related to net debt	59	(84)	50	(180)
Net repayment of commercial paper	-	-	(338)	(158)
Proceeds on issue of Own shares	188	42	192	52
Repurchase of ordinary share capital	(56)	(77)	(197)	(152)
<b>Net cash used in financing activities</b>	<b>(1,021)</b>	<b>(705)</b>	<b>(1,532)</b>	<b>(856)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>27</b>	<b>(12)</b>	<b>(54)</b>	<b>(579)</b>
Opening cash and cash equivalents	613	345	684	919
Net increase (decrease) in cash and cash equivalents	27	(12)	(54)	(579)
Effect of exchange rate changes	6	(18)	1	(25)
<b>Closing cash and cash equivalents including overdrafts</b>	<b>646</b>	<b>315</b>	<b>631</b>	<b>315</b>
Add back bank overdrafts	2	7	17	7
<b>Closing cash and cash equivalents</b>	<b>648</b>	<b>322</b>	<b>648</b>	<b>322</b>



**Group balance sheet**

	30 September 2014 £m	30 September 2013 £m	31 March 2014 £m
<b>Non-current assets</b>			
Intangible assets	3,051	3,167	3,087
Property, plant and equipment	13,627	13,984	13,840
Derivative financial instruments	657	609	539
Investments	38	69	34
Associates and joint ventures	22	23	18
Trade and other receivables	148	157	214
Deferred tax assets	1,468	1,387	1,460
	<b>19,011</b>	<b>19,396</b>	<b>19,192</b>
<b>Current assets</b>			
Programme rights	280	254	108
Inventories	116	132	82
Trade and other receivables	3,249	3,133	2,907
Current tax receivable	23	-	26
Derivative financial instruments	61	74	114
Investments	1,152	916	1,774
Cash and cash equivalents	648	322	695
	<b>5,529</b>	<b>4,831</b>	<b>5,706</b>
<b>Current liabilities</b>			
Loans and other borrowings	1,677	2,437	1,873
Derivative financial instruments	115	158	139
Trade and other payables	4,974	5,175	5,261
Current tax liabilities	163	241	315
Provisions	123	99	99
	<b>7,052</b>	<b>8,110</b>	<b>7,687</b>
<b>Total assets less current liabilities</b>	<b>17,488</b>	<b>16,117</b>	<b>17,211</b>
<b>Non-current liabilities</b>			
Loans and other borrowings	7,564	7,264	7,941
Derivative financial instruments	709	650	679
Retirement benefit obligations	7,296	6,676	7,022
Other payables	901	896	898
Deferred tax liabilities	961	1,096	829
Provisions	422	461	434
	<b>17,853</b>	<b>17,043</b>	<b>17,803</b>
<b>Equity</b>			
Ordinary shares	408	408	408
Reserves (deficit)	(773)	(1,334)	(1,000)
<b>Total equity (deficit)</b>	<b>(365)</b>	<b>(926)</b>	<b>(592)</b>
	<b>17,488</b>	<b>16,117</b>	<b>17,211</b>

## 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 2014 and 2013 together with the audited balance sheet at 31 March 2014. The financial statements for the half year to 30 September 2014 have been reviewed by the auditors and their review opinion is on page 26. The financial statements have been prepared in accordance with the Disclosure and Transparency Rules (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 financial statements for the year to 31 March 2014.

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

Except as described below 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 2014 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 2014 were approved by the Board of Directors on 7 May 2014, published on 22 May 2014, 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.

#### Restatement of certain line of business results

From 1 April 2014 BT Conferencing and BT Security have moved into BT Global Services from BT Business and our central group functions respectively. This will help us simplify the way we provide integrated collaboration solutions to our global customers, better compete in the market and take full advantage of global opportunities. Comparative results for BT Global Services, BT Business and Other and intra-group items have been restated to be presented on a consistent basis.

The impact on line of business results for the six months ending 30 September 2013 was to increase revenue, EBITDA and operating cash flow in BT Global Services by £105m, £49m and £35m respectively and to reduce revenue, EBITDA and operating cash flow in BT Business by £150m, £47m and £39m respectively. Central group functions revenue reduced by £6m, EBITDA reduced by £2m and operating cash flow increased by £4m. Intra-group eliminations on revenue decreased by £51m.

These organisational changes do not impact the results of BT Consumer, BT Wholesale or Openreach and there is no impact on the total group results. More details are set out in our related press release published on 16 June 2014.

We have also revised balance sheet comparatives to present them on a consistent basis with the audited balance sheet at 31 March 2014. Accrued income at 30 September 2013 increased by £38m, with a corresponding increase of £38m in deferred income.

## 2 Operating results – by line of business<sup>1</sup>

	External revenue	Internal revenue	Group revenue	EBITDA	Operating profit (loss)
	£m	£m	£m	£m	£m
<b>Second quarter to 30 September 2014</b>					
BT Global Services	1,643	6	1,649	226	102
BT Business	686	103	789	258	213
BT Consumer	1,041	15	1,056	225	171
BT Wholesale	529	-	529	125	70
Openreach	481	764	1,245	627	292
Other and intra-group items <sup>2</sup>	3	(888)	(885)	(11)	(16)
<b>Total</b>	<b>4,383</b>	<b>-</b>	<b>4,383</b>	<b>1,450</b>	<b>832</b>
<b>Second quarter to 30 September 2013</b>					
BT Global Services <sup>3</sup>	1,736	7	1,743	222	70
BT Business <sup>3</sup>	694	105	799	247	197
BT Consumer	977	10	987	158	105
BT Wholesale	624	-	624	159	97
Openreach	455	816	1,271	642	287
Other and intra-group items <sup>2,3</sup>	5	(938)	(933)	6	1
<b>Total</b>	<b>4,491</b>	<b>-</b>	<b>4,491</b>	<b>1,434</b>	<b>757</b>
<b>Half year to 30 September 2014</b>					
BT Global Services	3,282	14	3,296	439	175
BT Business	1,360	191	1,551	498	410
BT Consumer	2,073	29	2,102	463	354
BT Wholesale	1,054	-	1,054	251	137
Openreach	957	1,533	2,490	1,251	567
Other and intra-group items <sup>2</sup>	11	(1,767)	(1,756)	(17)	(28)
<b>Total</b>	<b>8,737</b>	<b>-</b>	<b>8,737</b>	<b>2,885</b>	<b>1,615</b>
<b>Half year to 30 September 2013</b>					
BT Global Services <sup>3</sup>	3,480	15	3,495	432	127
BT Business <sup>3</sup>	1,378	206	1,584	483	380
BT Consumer	1,915	22	1,937	389	281
BT Wholesale	1,262	-	1,262	316	190
Openreach	894	1,622	2,516	1,247	523
Other and intra-group items <sup>2,3</sup>	11	(1,865)	(1,854)	7	(1)
<b>Total</b>	<b>8,940</b>	<b>-</b>	<b>8,940</b>	<b>2,874</b>	<b>1,500</b>

<sup>1</sup> Before specific items

<sup>2</sup> Elimination of intra-group revenue, which is included in the total revenue of the originating business

<sup>3</sup> Restated, see Note 1 to the condensed consolidated financial statements

### 3 Operating costs

	Second quarter to 30 September		Half year to 30 September	
	2014 £m	2013 £m	2014 £m	2013 £m
Direct labour costs	1,154	1,173	2,331	2,354
Indirect labour costs	190	216	390	426
Leaver costs	1	4	3	10
<b>Total labour costs</b>	<b>1,345</b>	<b>1,393</b>	<b>2,724</b>	<b>2,790</b>
Capitalised labour	(260)	(245)	(521)	(483)
<b>Net labour costs</b>	<b>1,085</b>	<b>1,148</b>	<b>2,203</b>	<b>2,307</b>
Payments to telecommunications operators	552	639	1,082	1,285
Property and energy costs	241	251	485	497
Network operating and IT costs	153	149	312	313
Programme rights charges	83	50	161	50
Other costs	819	820	1,609	1,614
<b>Operating costs before depreciation and specific items</b>	<b>2,933</b>	<b>3,057</b>	<b>5,852</b>	<b>6,066</b>
Depreciation and amortisation	618	677	1,270	1,374
<b>Total operating costs before specific items</b>	<b>3,551</b>	<b>3,734</b>	<b>7,122</b>	<b>7,440</b>
Specific items (Note 4)	112	52	156	136
<b>Total operating costs</b>	<b>3,663</b>	<b>3,786</b>	<b>7,278</b>	<b>7,576</b>

### 4 Specific items

The group separately identifies and discloses those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence (termed 'specific items'). This is consistent with the way that financial performance is measured by management and assists in providing a meaningful analysis of the trading results of the group. Specific items may not be comparable to similarly titled measures used by other companies.

	Second quarter to 30 September		Half year to 30 September	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Specific revenue</b>				
Regulation	(58)	-	(58)	-
<b>Specific operating costs</b>				
Profit on disposal of subsidiary	(1)	-	(1)	-
Restructuring charges	60	52	104	136
Provision for regulatory risks	53	-	53	-
<b>Specific operating costs</b>	<b>112</b>	<b>52</b>	<b>156</b>	<b>136</b>
<b>EBITDA impact (Note 7)</b>	<b>54</b>	<b>52</b>	<b>98</b>	<b>136</b>
Net interest expense on pensions	73	58	146	117
(Profit) loss on disposal of interest in associate	-	-	(25)	3
<b>Net specific items charge before tax</b>	<b>127</b>	<b>110</b>	<b>219</b>	<b>256</b>
Tax credit on specific items before tax	(20)	(19)	(42)	(51)
Tax credit on re-measurement of deferred tax	-	(231)	-	(231)
<b>Net specific items charge (credit) after tax</b>	<b>107</b>	<b>(140)</b>	<b>177</b>	<b>(26)</b>

## 5 Free cash flow

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

	Second quarter to 30 September		Half year to 30 September	
	2014 £m	2013 £m	2014 £m	2013 £m
<b>Cash generated from operations</b>	<b>1,202</b>	1,334	<b>2,114</b>	1,993
Tax paid	<b>(117)</b>	(72)	<b>(231)</b>	(83)
<b>Net cash inflow from operating activities</b>	<b>1,085</b>	1,262	<b>1,883</b>	1,910
<b>Included in cash flows from investing activities</b>				
Net purchase of property, plant, equipment and software	<b>(521)</b>	(634)	<b>(1,051)</b>	(1,234)
Interest received	<b>2</b>	2	<b>4</b>	3
Net purchase of non-current asset investments	-	-	<b>(2)</b>	-
<b>Included in cash flows from financing activities</b>				
Interest paid	<b>(89)</b>	(73)	<b>(296)</b>	(296)
<b>Reported free cash flow</b>	<b>477</b>	557	<b>538</b>	383
Net cash outflow from specific items	<b>75</b>	72	<b>155</b>	206
Cash tax benefit of pension deficit payments	<b>(19)</b>	(19)	<b>(38)</b>	(39)
<b>Normalised free cash flow</b>	<b>533</b>	610	<b>655</b>	550

## 6 Net debt

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

	30 September 2014 £m	30 September 2013 £m	31 March 2014 £m
Loans and other borrowings <sup>1</sup>	<b>9,241</b>	9,701	9,814
Cash and cash equivalents	<b>(648)</b>	(322)	(695)
Current investments	<b>(1,152)</b>	(916)	(1,774)
	<b>7,441</b>	8,463	7,345
Adjustments:			
To re-translate currency denominated balances at swapped rates where hedged	<b>(104)</b>	(125)	(24)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	<b>(274)</b>	(264)	(293)
<b>Net debt</b>	<b>7,063</b>	8,074	7,028

<sup>1</sup> Includes overdrafts of £17m at 30 September 2014 (30 September 2013: £7m; 31 March 2014: £11m)

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

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

	Second quarter to 30 September		Half year to 30 September	
	2014 £m	2013 £m	2014 £m	2013 £m
Reported profit before tax	563	499	1,109	948
Share of post-tax (profits) losses of associates and joint ventures	(1)	-	(1)	2
(Profit) loss on disposal of interest in associate	-	-	(25)	3
Net finance expense	216	206	434	411
<b>Operating profit</b>	<b>778</b>	<b>705</b>	<b>1,517</b>	<b>1,364</b>
Depreciation and amortisation	618	677	1,270	1,374
<b>Reported EBITDA</b>	<b>1,396</b>	<b>1,382</b>	<b>2,787</b>	<b>2,738</b>
Specific items (Note 4)	54	52	98	136
<b>Adjusted EBITDA</b>	<b>1,450</b>	<b>1,434</b>	<b>2,885</b>	<b>2,874</b>

## 8 Reconciliation of adjusted profit before tax

	Second quarter to 30 September		Half year to 30 September	
	2014 £m	2013 £m	2014 £m	2013 £m
Reported profit before tax	563	499	1,109	948
Specific items (Note 4)	127	110	219	256
<b>Adjusted profit before tax</b>	<b>690</b>	<b>609</b>	<b>1,328</b>	<b>1,204</b>

## 9 Reconciliation of adjusted earnings per share

	Second quarter to 30 September		Half year to 30 September	
	2014 pence per share	2013 pence per share	2014 pence per share	2013 pence per share
Reported earnings per share	5.6	7.8	11.2	12.2
Per share impact of specific items	1.3	(1.8)	2.2	(0.3)
<b>Adjusted earnings per share</b>	<b>6.9</b>	<b>6.0</b>	<b>13.4</b>	<b>11.9</b>

## 10 Pensions

	<b>30 September 2014</b>	30 June 2014	31 March 2014
	<b>£bn</b>	£bn	£bn
IAS 19 liabilities - BTPS	<b>(47.9)</b>	(47.0)	(46.7)
Assets - BTPS	<b>40.8</b>	40.0	39.9
IAS 19 deficit - other schemes	<b>(0.2)</b>	(0.2)	(0.2)
Total IAS 19 deficit, gross of tax	<b>(7.3)</b>	(7.2)	(7.0)
Total IAS 19 deficit, net of tax	<b>(5.9)</b>	(5.8)	(5.6)
Discount rate (nominal)	3.90%	4.15%	4.25%
Discount rate (real)	0.82%	0.92%	0.97%
RPI inflation	3.05%	3.20%	3.25%
CPI inflation	1.0% below RPI until 31 March 2016 and 1.2% below RPI thereafter	1.0% below RPI until 31 March 2016 and 1.2% below RPI thereafter	0.75% below RPI until 31 March 2016 and 1.2% below RPI thereafter

## 11 Financial instruments and risk management

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

At 30 September 2014, the fair value of loans and borrowings was £10,919m (31 March 2014: £10,883m) and the carrying value was £9,241m (31 March 2014: £9,814m).

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

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 in our risk management policy since 31 March 2014.

The group's hedging policies use derivative financial instruments to manage financial risk. Our hedging activity seeks to protect against changes in the fair value of fixed-rate long term financial instruments due to movements in market interest rates and to reduce the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates and/or are in a foreign currency.

### 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:

- Level 1 – uses quoted prices in active markets for identical assets or liabilities
- Level 2 – uses inputs for the asset or liability other than quoted prices, that are observable either directly or indirectly
- 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.

## 11 Financial instruments and risk management (continued)

30 September 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
<b>Investments</b>				
Available-for-sale	20	1,152	10	1,182
Fair value through profit and loss	8	-	-	8
<b>Derivative assets</b>				
Designated in a hedge	-	603	-	603
Fair value through profit and loss	-	115	-	115
<b>Total assets</b>	<b>28</b>	<b>1,870</b>	<b>10</b>	<b>1,908</b>
<b>Derivative liabilities</b>				
Designated in a hedge	-	625	-	625
Fair value through profit and loss	-	199	-	199
<b>Total liabilities</b>	<b>-</b>	<b>824</b>	<b>-</b>	<b>824</b>

31 March 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total held at fair value £m
<b>Investments</b>				
Available-for-sale	18	1,774	7	1,799
Fair value through profit and loss	9	-	-	9
<b>Derivative assets</b>				
Designated in a hedge	-	534	-	534
Fair value through profit and loss	-	119	-	119
<b>Total assets</b>	<b>27</b>	<b>2,427</b>	<b>7</b>	<b>2,461</b>
<b>Derivative liabilities</b>				
Designated in a hedge	-	588	-	588
Fair value through profit and loss	-	230	-	230
<b>Total liabilities</b>	<b>-</b>	<b>818</b>	<b>-</b>	<b>818</b>

No gains or losses have been recognised in the income statement in respect of Level 3 assets held at 30 September 2014. There were no changes to the valuation methods or transfers between levels 1, 2 and 3 during the half year.

## 12 Share capital

In the half year to 30 September 2014 320m shares (HY 2013/14: 91m) at a total cost of £941m (HY 2013/14: £248m), 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 £192m (HY 2013/14: £52m).

The majority of the shares issued were to satisfy the 1 August 2014 maturity of a five year 'saveshare' plan in which nearly 23,000 individuals had participated since 2009.

## 13 Capital commitments

Capital expenditure for property, plant and equipment and software contracted for at the balance sheet date but not yet incurred was £469m (30 September 2013: £406m; 31 March 2014: £400m).



## 14 Principal risks and uncertainties

We have processes for identifying, evaluating and managing our risks. Details of our principal risks and uncertainties can be found on pages 50 to 55 of the Annual Report & Form 20-F 2014 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 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 risks associated with a significant funding obligation in relation to our defined benefit pension scheme
- 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 revenues; 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 operating under a wide range of local and international anti-corruption and bribery laws, trade sanctions and import and export controls
- The risk there could be a failure of any of our critical third-party suppliers to meet their obligations

There have been no significant changes to the principal risks and uncertainties in the half year to 30 September 2014, some or all of which have the potential to impact our results or financial position during the remaining six months of the financial year.

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## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Interim Management Report includes a fair review of the information required by Rules 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the United Kingdom's Financial 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  
Chief Executive  
29 October 2014

Tony Chanmugam  
Group Finance Director  
29 October 2014

## **Independent review report to BT Group plc**

### **REPORT ON THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### **Our conclusion**

We have reviewed the condensed consolidated financial statements, defined below, in the half year financial report of BT Group plc for the six months ended 30 September 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

#### **What we have reviewed**

The condensed consolidated financial statements, which are prepared by BT Group plc, comprise:

- the Group balance sheet as at 30 September 2014;
- the Group income statement and Group statement of comprehensive income for the period then ended;
- the Group statement of changes in equity for the period then ended;
- the Group cash flow statement for the period then ended; and
- the explanatory notes to the condensed consolidated financial statements.

As disclosed in note 1, 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.

The condensed consolidated 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 and Transparency Rules of the United Kingdom's Financial Conduct Authority.

#### **What a review of condensed consolidated 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 Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half year financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated financial statements.

### **RESPONSIBILITIES FOR THE CONDENSED FINANCIAL STATEMENTS AND THE REVIEW**

#### **Our responsibilities and those of the directors**

The half year financial report, including the condensed consolidated 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 and Transparency Rules of the United Kingdom's Financial Conduct Authority.

## Independent review report to BT Group plc

Our responsibility is to express to the company a conclusion on the condensed consolidated 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 and Transparency Rules of the 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.

PricewaterhouseCoopers LLP  
Chartered Accountants  
London  
29 October 2014

### Notes:

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

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

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## Forward-looking statements – caution advised

Certain statements in this results release are forward-looking and are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements include, without limitation, those concerning: current and future years' outlook, including revenue growth, EBITDA and free cash flow; cost transformation; dividend growth; our net debt, liquidity and our share buyback programme; our fibre roll-out, customer demand and super-fast speeds, our investment in fibre and our BDUK activity; the impact of BT Sport; our investment in improving customer service; and the commercial and financial impact of regulatory and legal decisions and outcomes of appeals.

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

Factors that could cause differences between actual results and those implied by the forward-looking statements include, but are not limited to: material adverse changes in economic conditions in the markets served by BT; future regulatory actions, decisions, and conditions or requirements in BT's operating areas, including competition from others; future legal actions; 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; the anticipated benefits and advantages of new technologies, products and services not being realised; the timing of entry and profitability of BT in certain communications markets; significant changes in market shares for BT and its principal products and services; the underlying assumptions and estimates made in respect of major customer contracts proving unreliable; the aims of the group-wide restructuring programme not being achieved; and general financial market conditions affecting BT's performance and ability to raise finance. BT undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.