



IFRS 15 applied to BT

25 June 2018

BT Group plc

What is IFRS 15?

IFRS 15 is a new accounting standard for revenue. It is intended to improve harmonisation between IFRS¹ and US GAAP².

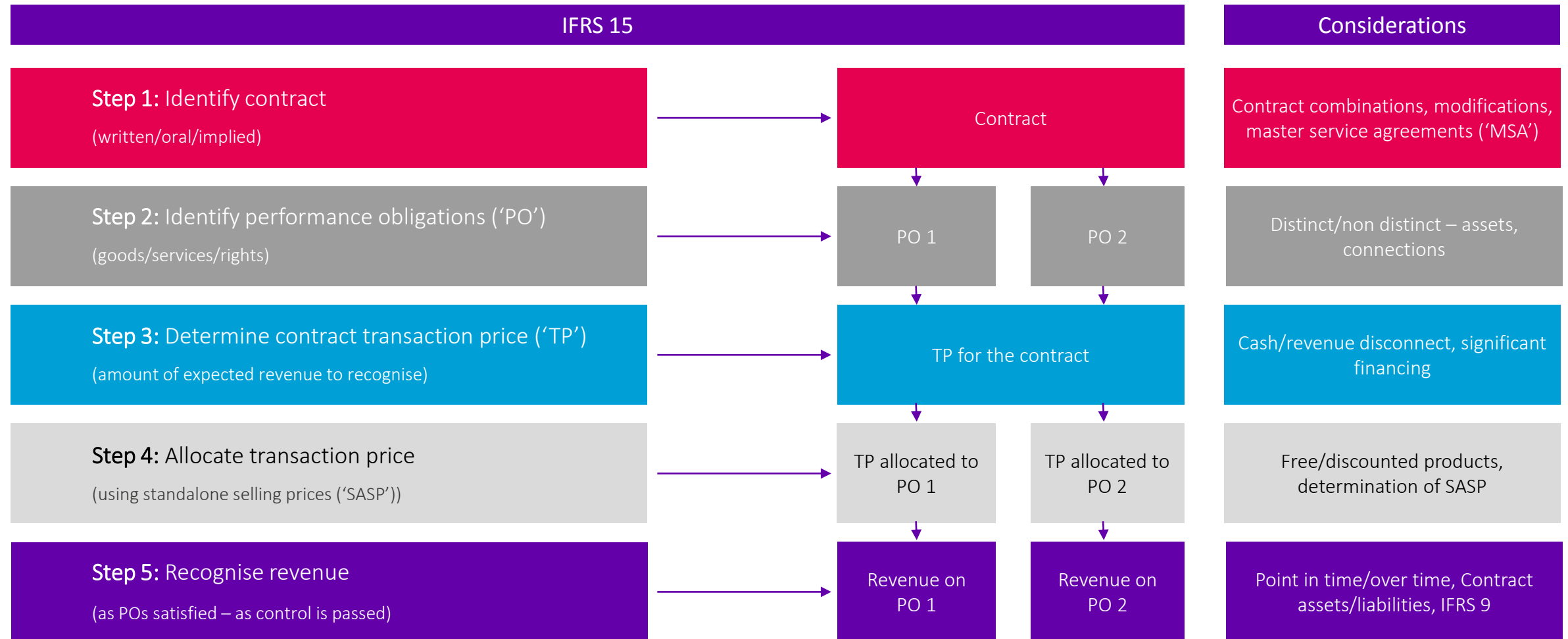
Revenue recognition is based on the contract with the customer instead of the invoice. It will have a major impact on the telecoms sector, mainly due to subsidised handsets.

BT adopted this standard on 1 April 2018 and we will apply it to our results from that date. We have released unaudited pro forma results for 2016/17 and 2017/18 by quarter to show the indicative historical impact of the change.

¹ IFRS = International Financial Reporting Standards

² US GAAP = Unites States Generally Accepted Accounting Principles

The 5 step model of IFRS 15 revenue recognition



What are the key impacts for BT?

Handsets



IAS 18

Revenue is based on the cash received up front for a handset but this is often minimal or zero

IFRS 15

Handset delivery is a separate performance obligation. Revenue is based on the standalone selling price of the handset and is recognised up front

Connection revenue and costs



IAS 18

Connection fees are recognised up front as a separate transaction

IFRS 15

Connection fees are not separated and are spread over the period of rental

Commission costs



IAS 18

Directly attributable contract costs (for example, commission costs) are expensed as incurred

IFRS 15

All directly attributable contract costs are deferred and spread over the contract

Bundles



IAS 18

Accounted for in line with billing profile and revenue is not recognised for goods provided for no additional charge

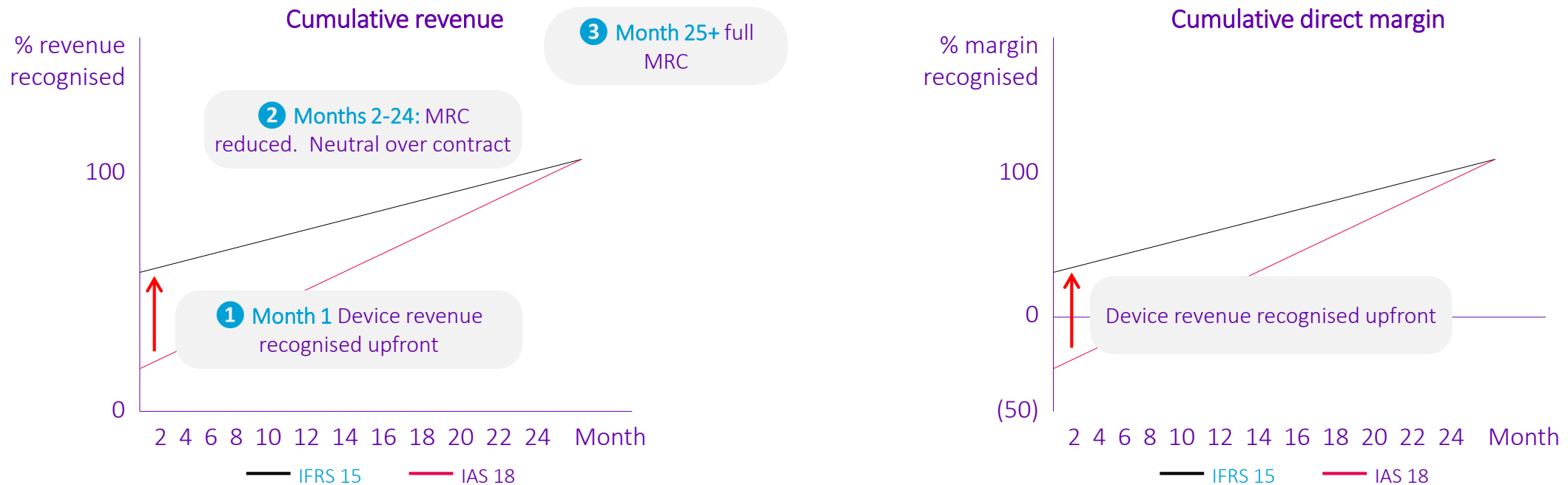
IFRS 15

Each element of a bundle is accounted for as a separate performance obligation with revenue allocated to each

Key changes – mobile contracts: a direct sale

The biggest impact on BT is from the change in the recognition of handset revenue in our mobile contracts. The example below shows the impact on revenue and margin for a mobile contract sold directly. The profit and loss and balance sheet impacts are illustrated with numbers on the following slides.

Handset revenue is recognised in month 1 which pulls forward revenue and direct margin. This unwinds over the contract and is lifetime neutral.



1 Month 1

Device revenue pulled forward – accelerating turnover and direct margin

2 Months 2-24

Monthly recurring charges ('MRC') lower over contract – contract neutral

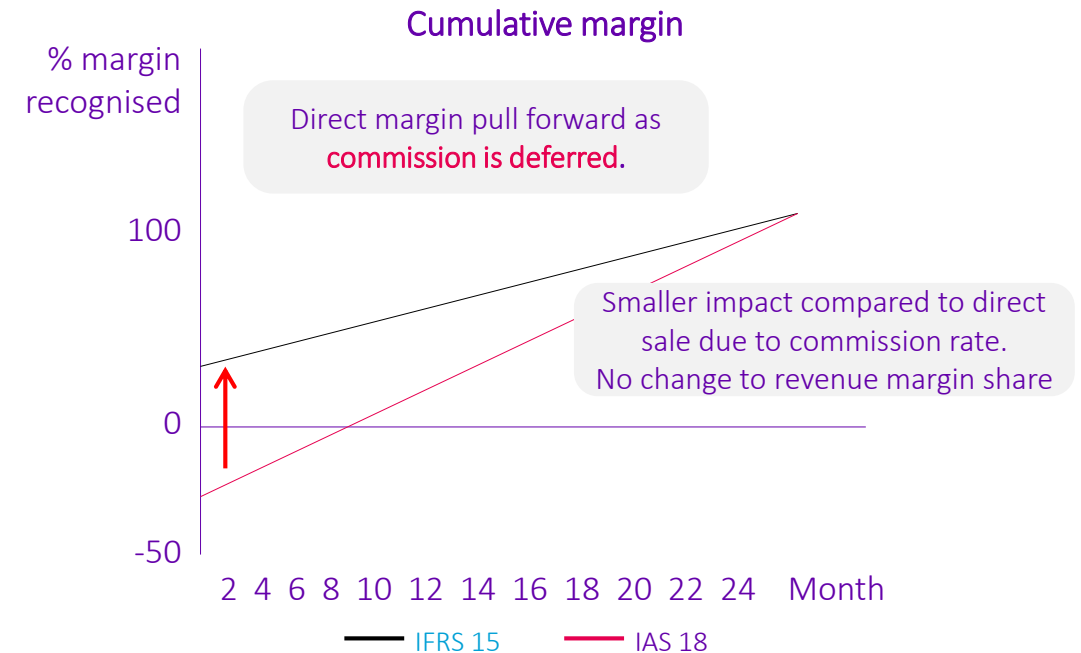
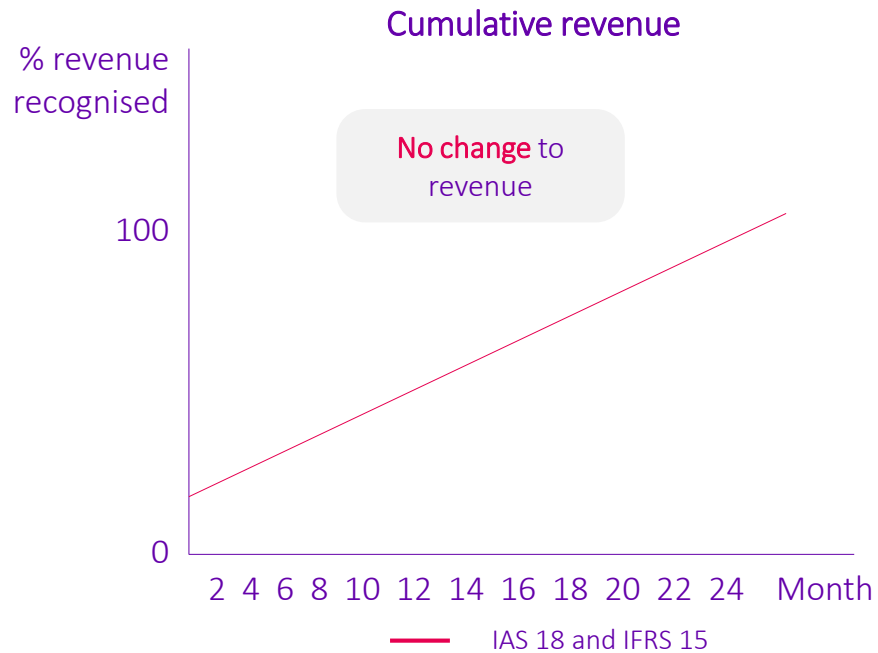
3 Months 25+

Revert back to recognising the billed MRC

Key changes – mobile contracts: an indirect sale

There is also an impact on mobile contracts sold indirectly, where we enter into revenue margin share arrangements, as illustrated below.

IFRS 15 only impacts recognition of Direct Margin for indirect channels

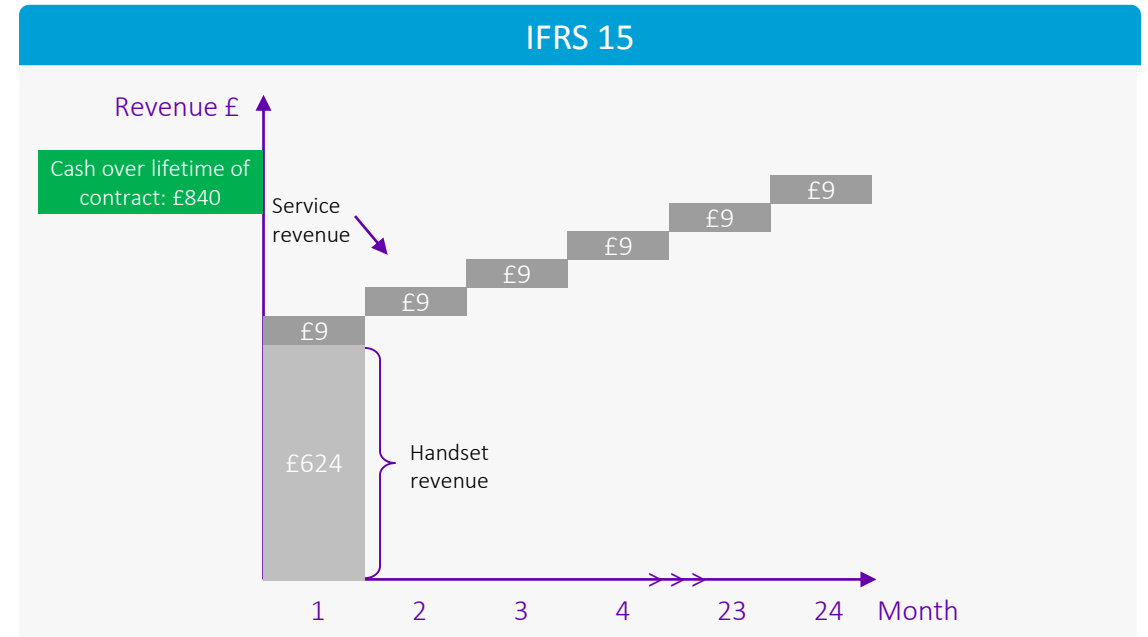
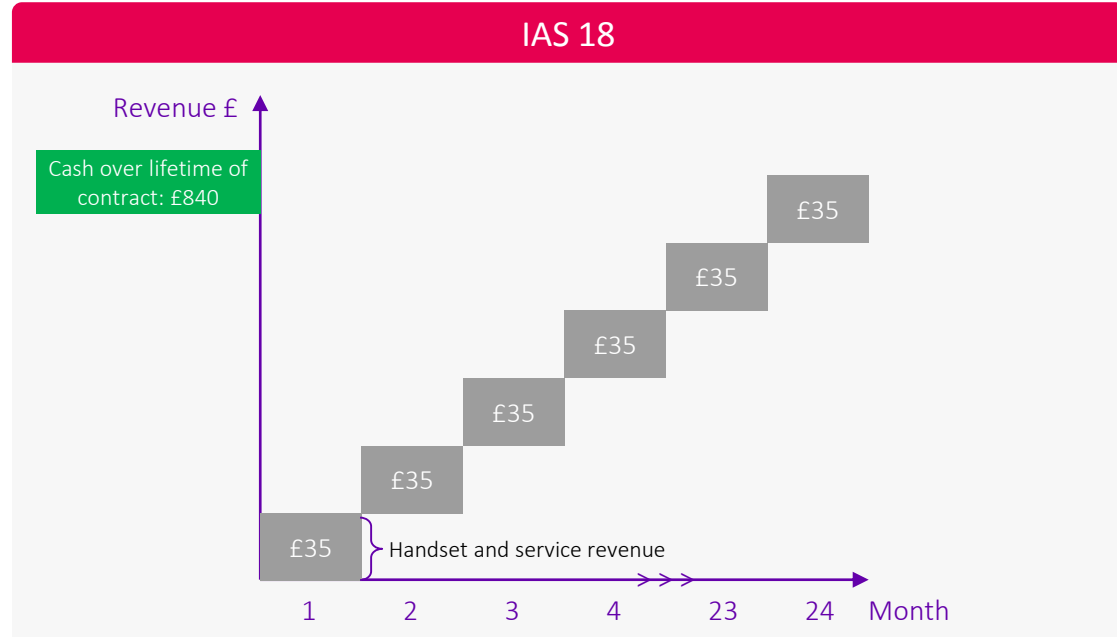


Revenue
No change

Direct margin
Defer commissions, lifetime neutral

Key changes – mobile contracts: numerical illustration of a direct sale

The numbers in the below example are purely illustrative and demonstrate the change in revenue profile under IFRS 15.



Under IAS 18 we recognised £35 per month which matched the bill to the customer.



Under IFRS 15 we recognise the handset revenue on day 1 when we deliver it. In this example it is £624.

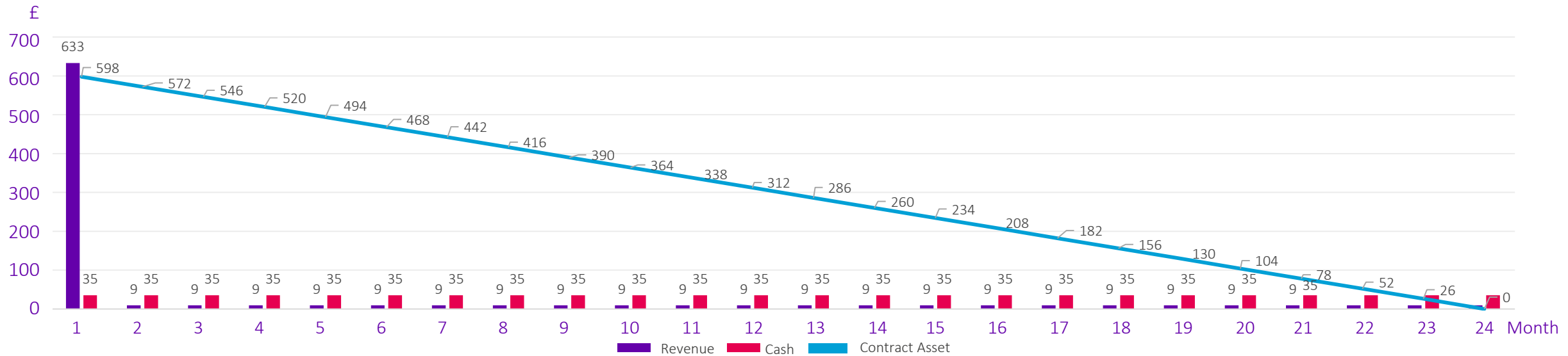


The revenue attributable to the ongoing service (£9 in this example) is recognised each month.

The timing of recognition will change, but total revenue recognised over the contract will not.
There is no impact on cash for each contract, other than the timing of the taxation payable on BT's profits on adoption of IFRS 15.

Key changes – mobile contracts: the impact on our balance sheet

The numbers in the illustration below follow on from the previous slide and demonstrate the Contract Asset created on the Balance Sheet under IFRS 15.



Billing no longer equals revenue for our mobile contracts. The illustration above shows that when we recognise handset revenue up front, a Contract Asset is set up on the balance sheet and is unwound over the course of the contract.



There are other balance sheet impacts for BT (not presented in the above example). Connection revenue was previously recognised on day 1 at the point of customer connection. Under IFRS 15, it is recognised over the term of the contract. This deferral of revenue creates a Contract Liability.

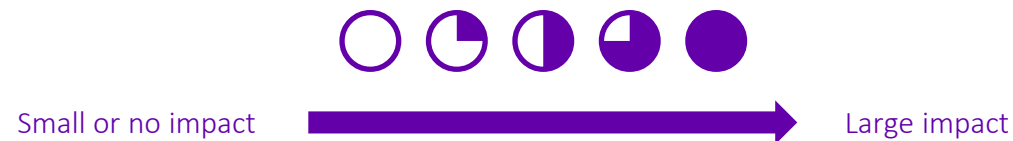


The balance sheet is also impacted by costs. We used to recognise our costs to obtain the contract (eg. commission payments) up front. We now recognise these costs over the life of the contract. This deferral of cost has a balance sheet impact.

In our Q4 2017/18 results we disclosed that we expect the likely impact on transition at 1 April 2018 will be a cumulative increase in retained earnings of between £1.1bn and £1.5bn before tax. The corresponding impact is recorded as a contract asset.

Summary of IFRS 15 impact on opening reserves by unit

	Consumer	Business and Public Sector	Wholesale and Ventures	Global Services	Openreach
Pull forward of handset revenue					
Deferral of commission costs					
Deferral of connection revenues and costs					



IFRS 15 communication

10 May 2018

- Published our results for 2017/18 under IAS 18
- We disclosed that the likely impact on transition at 1 April 2018 will be a cumulative increase in retained earnings of between £1.1bn and £1.5bn before tax

June 2018

- Released unaudited pro forma information showing the 2016/17 and 2017/18 results by quarter under IFRS 15

27 July 2018

- Q1 2018/19 trading statement intended to be published
- Results will be reported under IFRS 15. The comparatives remain under IAS 18

November 2018

- H1 2018/19 results
- Results will be reported under IFRS 15. The comparatives remain under IAS 18
- We will disclose the finalised adjustment to our opening balance of retained earnings at 1 April 2018

May 2019

- Full year 2018/19 results
- Results will be presented under IFRS 15 and will be audited
- Comparatives remain under IAS 18
- A one off disclosure will be presented showing what the results would have been for 2018/19 under IAS 18
- Other new disclosures include contract assets and unsatisfied performance obligations

