Financial results

BT Group plc

Trading update for the first quarter to 30 June 2018

27 July 2018

BT Group plc (BT.L) today announced its trading update for the first quarter to 30 June 2018.

Key developments for the quarter

Strategic:

- Successfully launched new converged products including BT Plus and 4G Assure
- EE to launch the UK's first live 5G trial network in East London in October
- Future Telecoms Infrastructure Review conclusion and Ofcom's approach to future regulation provide positive progress towards enabling fair returns for infrastructure investment
- Openreach announced new wholesale pricing discounts to accelerate superfast and ultrafast uptake
- Continued improvement in customer experience metrics; Group NPS[1] up 1.9 points and Right First Time[2] up 3.1%
- Initiatives to transform our operating model on track; new Enterprise senior leadership team announced

Operational:

- Over 1.7m total ultrafast premises passed; currently building FTTP to c.10,000 premises per week
- Monthly fixed ARPU up 1% to £37.9, with increased mix of SIM only reducing postpaid mobile ARPU by 1% to £21.7; churn remains low at 1.2%
- Mobile customers up 4% in Business and Public Sector. External broadband lines down 6% in Wholesale and Ventures and 3% in Business and Public Sector

Financial:

- Reported revenue of £5,715m. Underlying[3] revenue down 2%[4] as regulated price reductions in Openreach and declines in our enterprise businesses offset growth in our consumer business
- Adjusted[3] EBITDA up 1%[4] to £1,800m mainly driven by stronger handset margins in our consumer business and restructuring related cost savings
- Reported profit before tax of £704m. Adjusted[3] profit before tax up 3%[4] at £816m
- Normalised free cash flow[3] of £507m down 9% mainly driven by increased cash capital expenditure partly offset by timing of working capital movements
- Reported capital expenditure broadly flat at £839m

Gavin Patterson, Chief Executive, commenting on the trading update, said

"We've made a good start to the year. We are making positive progress against our strategy. Our customer experience metrics continue to improve and we have seen the successful launch of new converged products including BT Plus, our first Consumer converged offering and 4G Assure, for business customers. Initiatives to transform our operating model have seen a gross reduction in c.900 roles across the Group and improved cost performance.

"EE continues to maintain its network leadership and will switch on the UK's first live 5G network trial in October. Openreach continues its FTTP network deployment and is currently building to c.10,000 premises per week. New Openreach wholesale pricing will incentivise communications providers to encourage more of their customers onto better services and ultimately move the vast majority of Britain's homes and businesses onto superfast and ultrafast platforms. We welcome the initial outcome of DCMS' Future Telecoms Infrastructure Review and Ofcom's approach to future regulation and look forward to further engagement with all our key stakeholders to ensure greater clarity, certainty and support as we look to realise our broader investment ambitions.

"Our outlook for the year remains unchanged."

First quarter to 30 June	**2018 (IFRS 15)**	2017 (IFRS 15 pro forma unaudited)	2017 (IAS 18)	Change[4]
	£m	£m	£m	%
Reported measures				
Revenue	5,715		5,837	n/m
Profit before tax	704		418	n/m
Profit after tax	549		285	n/m
Adjusted measures				
Adjusted revenue	5,716	5,835	5,849	(2)
Change in underlying[3] revenue				(2)
Adjusted[3] EBITDA	1,800	1,785	1,785	1
Adjusted[3] profit before tax	816	791	791	3
Capital expenditure	839	835	835	-
Normalised free cash flow[3]	507	556	556	£(49)m
Net debt[3]	11,227	8,810	8,810	£2,417m

[1] Group NPS measures Net Promoter Score in our retail business and Net Satisfaction in our wholesale business
[2] Measured against Group-wide 'Right First Time' (RFT) index
[3] See Glossary on page 2
[4] Measured against unaudited IFRS 15 pro forma comparative period in the prior year
n/m = IFRS 15 to IAS 18 comparison not meaningful

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Customer facing unit results for the first quarter to 30 June 2018

	Adjusted[1] revenue			Adjusted[1] EBITDA		
First quarter to 30 June	**2018**	2017[2]	Change	**2018**	2017[2]	Change
	£m	£m	%	**£m**	£m	%
Consumer	**2,591**	2,540	2	**610**	556	10
Business and Public Sector	**1,085**	1,132	(4)	**350**	342	2
Wholesale and Ventures	**459**	497	(8)	**154**	174	(11)
Global Services	**1,147**	1,246	(8)	**95**	73	30
Openreach	**1,217**	1,248	(2)	**567**	621	(9)
Other	**1**	2	n/m	**24**	19	26
Intra-group eliminations	**(784)**	(830)	6	**-**	-	-
Total	**5,716**	5,835	(2)	**1,800**	1,785	1

[1] See Glossary
[2] Unaudited IFRS 15 pro forma used for comparative period in the prior year
n/m = not meaningful

SUMMARY AND OUTLOOK

There is no change to our financial outlook for 2018/19 from that published on 25 June which reflected the adoption of the IFRS 15 accounting standard.

	2018/19
Change in underlying[1] revenue (IFRS 15 basis)	Down c.2%
Adjusted[1] EBITDA (IFRS 15 basis)	£7.3bn - £7.4bn
Normalised free cash flow[1]	£2.3bn - £2.5bn
Capital expenditure[2]	c.£3.7bn

[1] See Glossary
[2] Excluding BDUK clawback

Enquiries

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We will hold a conference call 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 the second quarter and half year results for 2018/19 on 1 November 2018.

Glossary of alternative performance measures

Adjusted	Before specific items
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 1 on page 9
Underlying	Excludes specific items, foreign exchange movements and the effect of acquisitions and disposals. Further information is provided in note 2 on page 9

Our commentary focuses on the trading results on an adjusted basis. Unless otherwise stated, revenue, earnings before interest, tax, depreciation and amortisation (EBITDA), profit before tax, and normalised free cash flow are measured before specific items. Further information is provided in note 1 on page 9.

Overview of the first quarter to 30 June 2018

CUSTOMER FACING UNIT UPDATES

Consumer

Revenue growth was driven by increased mix of high-end smartphones, growth in the SIM only base and customers now paying for BT Sport, partially offset by solus voice price reductions. Flat operating costs enabled the revenue growth to flow directly through to EBITDA. We expect sports rights and device costs to increase later in the year. Consumer announced its 'Best Connected' strategy, with BT branded propositions now available in all EE stores and the launch of BT Plus, our first Consumer converged offering, which is showing encouraging early signs with more than 100,000 customers signed up in the quarter. In addition, BT became the first major UK pay-TV provider to offer Amazon Prime Video via the set-top box. EE continued to maintain its network leadership, moving into network convergence, becoming the first UK network to launch smart number technology allowing customers to use the same number across multiple devices.

Business and Public Sector

Revenue decline was driven by lower equipment volumes, migration from fixed voice to IP, and the impact of EU roaming regulation on mobile, partially offset by continued growth in mobile volumes, IP and networking. EBITDA grew despite the revenue decline helped by a 7% decline in operating costs due to lower equipment costs and labour cost efficiencies as well as some one-off cost benefits in the quarter. Business and Public Sector is still facing pressure from the migration away from legacy products, however the Public Sector contract headwinds are now largely behind us. Order intake decline on a rolling 12-month basis is primarily driven by a large Wholesale contract in the Republic of Ireland in the prior year.

Wholesale and Ventures

Revenue was down mainly driven by traditional Voice products and Partial Private Circuits (PPCs) reflecting market decline and customers migrating to newer technologies. EBITDA also declined reflecting the reduction in revenue. In Ventures there was encouraging growth including a 63% increase in messaging volumes. The total number of installed InLinkUK units increased from 138 to 180 in the quarter. Wholesale order intake decline on a rolling 12-month basis is primarily driven by the prior year benefitting from the five-year mobile network services deal with Virgin Media.

Global Services

Revenue decline was mainly driven by our decision to reduce low margin business. EBITDA increased mainly reflecting the benefit from the true up of 2017/18 annual bonus and lower labour costs from our ongoing restructuring programme. Our total order intake was down for the quarter and on a rolling 12-month basis continuing to reflect a shift in buyer behaviour, including shorter contract lengths and increased usage-based terms. During the quarter we launched a new Software Defined Networking (SDN) service based on technology from Cisco. BT Connect Cisco SD-WAN provides our customers improved agility to deploy Cloud, helping them accelerate digital transformation. We are also collaborating with Microsoft to provide cloud infrastructure, networking, security and managed services to scale and optimize customers' Azure operations, globally.

Openreach

Revenue decline was driven by around £90m of regulated price reductions on our FTTC and Ethernet products and a decline in our physical line base, partly offset by underlying growth of 26% in FTTC rental base and an 11% increase in Ethernet rental base. EBITDA decline reflected lower revenue, higher costs from recruitment and training of new engineers to support our Fibre First programme and help deliver improved customer service, higher costs from pay inflation and business rates, partly offset by efficiency savings. Our Fibre-to-the-Premises (FTTP) network build is progressing well and we are on track to deliver our commitment to reach three million homes and businesses by the end of 2020. During the quarter we also announced that Exeter would be the ninth city to benefit from our Fibre First programme.

FINANCIALS

Revenue and EBITDA

Reported revenue was £5,715m. Underlying[1] revenue was down 2%[2] as regulated price reductions in Openreach and declines in our enterprise businesses more than offset growth in our consumer business. The main contributor to enterprise revenue decline was Global Services whose adjusted[1] revenue declined 8%[2] due to a reduction in IP exchange volumes in line with our strategy to reduce low margin business.

Adjusted[1] EBITDA of £1,800m was up 1%[2] primarily driven by stronger handset margins in our consumer business and restructuring related cost savings, partly offset by the decline in revenue, higher costs of investment in customer experience and the costs of recruitment and training of new engineers to support Openreach's Fibre First programme. Reported profit before tax was up 68% at £704m, primarily driven by higher specific item costs in the prior year. Adjusted[1] profit before tax was up 3%[2] at £816m.

Tax

The effective tax rate on profit before specific items was 21%, based on our current estimated effective tax rate for the full year. This is higher than the standard UK corporation tax rate of 19% principally due to non-deductible items, including share-based payments.

Capital expenditure

Capital expenditure was £839m (Q1 2017/18: £835m) including fixed network investment of £428m, down 1% due to lower mobile investment under ESN. Other capital expenditure components were up 2% with £224m spent on customer driven investments, £150m on systems and IT, and £37m spent on non-network infrastructure.

Under the terms of the BDUK programme, we have an obligation to repay or re-invest grant funding depending on factors including the level of customer take-up achieved. Our base-case assumption for take-up in Broadband Delivery UK (BDUK) areas has increased to 43% of total premises passed. We will continue to assess this each quarter.

Normalised free cash flow

Normalised free cash flow[1] was down 9% at £507m mainly driven by increased cash capital expenditure partly offset by timing of working capital movements.

Net debt and liquidity

Net debt[1] was £11,227m at 30 June 2018, £1,600m higher than at 31 March 2018. The increase in the quarter primarily reflects £2bn of new bond issuances offset by reported free cash flows. The £2bn of new bonds were issued under our €20bn Euro Medium Term Note Programme and will be held by the BT Pension Scheme. These are sterling denominated with maturities ranging from 2033 to 2042.

Pension

The IAS 19 net pension position at 30 June 2018 was an estimated deficit of £3.9bn net of tax (£4.6bn gross of tax), compared with our reported position at 31 March 2018 of £5.3bn net of tax (£6.4bn gross of tax).

The estimated reduction in the gross deficit of £1.8bn mainly reflects the deficit contributions of £2.0bn but also a reduction in the estimated liabilities of £0.3bn partly offset by a £0.5bn reduction in the assets. The movement in liabilities was driven primarily by an increase in the real discount rate, which reduced liabilities by an estimated £0.7bn, partly offset by an approximate £0.5bn correction of an error made by our independent external actuary, Willis Towers Watson, in their calculation of our IAS 19 accounting pension deficit at 31 March 2018.

We have received certified assurance from the actuary that their quantification of their error is accurate and that there are no other errors as at 31 March 2018. We are separately undertaking further review procedures around their calculation.

The correction, which amounts to less than 1% of the total pension liabilities of just over £57bn, has no effect on our reported income, cash flow or on our 2017/18 final dividend which is to be paid in September 2018. It also has no effect on the 2017 triennial funding valuation of the BT Pension Scheme, associated cash contributions or pension scheme members.

On completion of our review we intend to restate our comparative balance sheet and statement of other comprehensive income in our next published financial report at Q2, and subsequently in our annual accounts for the year ending 31 March 2019. Also, in accordance with US financial reporting requirements, we will file restated financial statements on Form 20-F upon completion of our review - refer Form 6-K of today.

[1] See Glossary on page 2
[2] Measured against unaudited IFRS 15 pro forma comparative period in the prior year

Key operational metrics

Our key operational metrics are as follows:

First quarter to 30 June	2018	2017
Consumer		
Average revenue per customer (£ per month)		
- Fixed	**37.9**	37.6
- Postpaid mobile	**21.7**	22.0
- Prepaid mobile	**8.1**	8.0
Monthly churn		
- Fixed	**1.2%**	1.3%
- Postpaid mobile	**1.2%**	1.2%
Fibre share of broadband base		
- Superfast	**65.6%**	57.8%
Business and Public Sector		
Number of products/customers ('000)		
- Voice lines	**2,158**	2,408
- VoIP seats	**282**	218
- Broadband lines	**796**	817
- WAN	**71**	74
- Mobile customers	**3,603**	3,449
Fibre share of broadband base		
- Superfast	**49.8%**	41.7%
Rolling 12-month order intake (£m)	**2,868**	3,897
Wholesale and Ventures		
Number of products/customers		
- Wholesale call minutes (millions)	**973**	1,131
- External broadband lines ('000)	**744**	789
- Ethernet circuits ('000)	**47**	45
- Partial private circuits ('000)	**16**	23
- MVNO customers ('000)[1]	**3,716**	3,737
Fibre share of broadband base		
- Superfast	**32.7%**	27.7%
Wholesale rolling 12-month order intake (£m)	**1,284**	1,486
Global Services		
Rolling 12-month order intake (£m)	**3,669**	4,448
Openreach		
Network deployment ('000 premises passed)		
- Superfast	**27,087**	26,114
- Ultrafast Gfast	**1,117**	84
- Ultrafast FTTP	**631**	398

[1] MVNO customers are reported one month in arrears

STRATEGIC PRIORITIES

Deliver differentiated customer experiences

Investing in the quality of our service, the performance of our network and creating differentiated customer experiences through converged products is central to our strategy. Our customers' overall perception of BT improved for the eighth successive quarter with Group NPS[1] increasing by 1.9 points when compared to the Q4 2017/18 baseline. The consistency and quality of our service has also continued to improve with our 'Right First Time'[2] performance increasing by 3.1% from the same baseline period.

Service

Openreach delivered its best ever quarter of service performance for voice and broadband products. Provision and repair performance were at record highs whilst missed appointments remained low. We remain ahead on all 60 copper Minimum Service Level (MSL) measures set by Ofcom.

Ethernet services remain critical to our business, wholesale and corporate customers and our Ethernet delivery performance has continued to improve. We have reduced the average time to provide service from 46 working days in Q1 2017/18 to 34 in Q1 2018/19.

The latest Ofcom complaints results (January to March 2018) show year on year improvements for broadband with 32% fewer complaints for BT Consumer, 46% for EE and 20% for Plusnet. For our mobile services, EE received 25% fewer complaints in the same period. We have plans in place to continue reducing complaints throughout 2018/19.

Use of our digital capabilities continues to grow. BT Consumer customers' use of eChat increased by 8% year on year and 2.5m customers have now downloaded the My BT app. In the same period, we've seen a 12% increase in My EE app downloads to just under 11m. Following the launch of our first business app last year, more than 24,000 customers have now downloaded it. To compliment the successful roll out of Ethernet ordering on our digital platforms, we have launched an on-line Ethernet repair tracker for Wholesale customers. Our digital technology has also been used to stop over 100m unwanted calls through our free Call Protect product.

Improving service levels and increasing use of digital channels has underpinned a 10% reduction in customer contact about service issues since Q1 2017/18. Over the same period, we have reduced average call waiting times for our business customers by a third to 44 seconds whilst EE and BT Consumer customers have seen average call waiting times broadly halved to 37 and 34 seconds respectively.

Network

The availability and speed of our fixed and mobile network is critical to our customers. 50% of our SME customers and over 60% of our residential customers now have Superfast Broadband (at 24Mbps or above). Our 4G geographic mobile network coverage has increased, reaching over 98% of the population.

Ultrafast Broadband (which includes FTTP and Gfast) is now available to more than 1.7m customers, with EE launching a 145 and 300Mbps service in Q1 2018/19 in addition to BT Consumer's offering launched in Q4 2017/18.

Openreach's performance has been underpinned by continued proactive maintenance of the network, further improvements to operational planning and faster recovery from weather events.

Products

The launch of new converged products is key to delivering differentiated customer experiences. In Q1 we launched BT Plus, bringing fibre and 4G together to give customers our best connection in and out of the home. For business customers we launched 4G Assure, the UK's first and only broadband that can automatically switch to 4G, helping our customers to always stay connected.

EE launched mobile data gifting among family members, powered by the My EE app, which allows customers to move data around the family to those who need it most. We have over 600 EE shops and we're rolling out home broadband and TV demo bays that allow our customers to try out products that both BT and EE have to offer.

In June, we bought the rights to show a further 20 Premier League live matches for £90m, giving us a total of 52 matches per season for £975m over three years starting in the 2019 season. Audience figures continue to grow on BT Sport, with average viewing figures up 17% at the end of the last football season plus a BT Sport record breaking 8.5 million people watched May's UEFA Champions League Final across TV and digital platforms.

We also announced that BT TV is the first major UK TV service to offer Amazon Prime Video on its set-top boxes.

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

[2] Measured against Group-wide 'Right First Time' (RFT) index

Invest in integrated network leadership

Mobility

EE announced that it will be switching on the UK's first live 5G trial network in East London in October. Ten sites will be upgraded with the latest 5G technology to enable next generation of mobile network allowing consumers and businesses to experience the UK's first 5G network with beta 5G broadband devices.

EE's network quality continues to be recognised externally, still leading in RootMetrics tests, achieving first or joint first in all areas. Plus we picked up four trophies at Mobile Today's Industry Awards in June, winning 'Best Consumer Network' for the fifth year running, as well as 'Best Business Network' and 'Most Innovative Service'.

Broadband

Openreach continues to accelerate its FTTP network deployment and is currently building to c.10,000 premises per week. They announced Exeter as the ninth city to benefit from their Fibre First programme, which is committed to making FTTP technology available to three million homes and businesses by the end of 2020. Current deployment costs are coming in at the lower end of expectations. Openreach have created one network build team across business and consumer for better and accelerated fibre deployment.

In May Openreach announced a consultation to seek views on the withdrawal of analogue technology and parallel upgrade to digital. An interim service is being developed to protect customers that rely on copper connections. This consultation will help plans to migrate all customers from a traditional analogue phone network (the PSTN) to new digital, internet based (all IP) services by 2025.

In June Openreach announced 59 new locations for Gfast build, on top of the existing 46, which will provide ultrafast broadband to more than 370,000 homes and businesses across the country, quickly and at a lower cost of deployment, until full fibre is available.

In July the National Infrastructure Commission (NIC) published its first National Infrastructure Assessment, setting out a 30-year strategy for the UK's economic infrastructure. This included a recommendation for the Government to devise a National Broadband Plan by Spring 2019, to deliver full fibre access to the whole country, ensuring availability to 15m homes and businesses by 2025, 25m homes and businesses by 2030 and all homes and businesses by 2033. We welcome the NIC's assessment and policy direction.

In July Openreach announced a new, supplementary wholesale discount structure for fibre broadband in return for volume commitments. Openreach is offering long-term discounts which go beyond Ofcom's pricing controls on its superfast broadband products. The new wholesale discounts will be available to all of Openreach's CP customers from 21 August, giving greater certainty on prices for a period of three or five years. BT believes that the new pricing structure will encourage CPs to move more of their customers onto better services and ultimately to move the vast majority of Britain's homes and businesses onto superfast and ultrafast platforms.

We welcome the initial outcome of the Department for Digital, Culture, Media and Sport Future Telecoms Infrastructure Review. This is critical in signalling the direction of policy and regulation in relation to infrastructure investment for both mobile and fixed markets over a number of years. Support for deregulation where competition is effective, recognition of the limits of competition in driving investment across the country, and acknowledgement of a requirement for additional funding for areas where gigabit connectivity is not economic were all encouraging. It was also good to see Government support for switchover and for a range of measures to reduce costs of fibre roll out, including a review of business rates. We look forward to engaging further with Government and others on the next steps.

Transform our operating model

In April we announced the bringing together of our enterprise businesses, Wholesale and Ventures and Business and Public Sector, in the UK and Republic of Ireland to create a new Enterprise unit. Gerry McQuade, formerly CEO of the Wholesale and Ventures business, has been appointed to bring together and lead the new organisation and with the appointment of the new leadership team we are on track to operate as one business from 1 October 2018.

Our integration and restructuring activities remain on track. We continue to progress the restructuring of Global Services. Earlier this year we transitioned all globally managed accounts into a unified structure, and we are now aligning our organisation around three industry verticals: banking and financial services; resources, manufacturing and logistics; and TMT, healthcare and business services. We are also creating a new unit to provide the full range of sales support from marketing to deal architecture. We have also made progress with Group Business Services (GBS), a unit dedicated to providing shared services across BT. GBS will help to drive business growth, and allow us to achieve significant quality, service and efficiency gains. GBS will operate through a network of global, regional and local shared service centres and will drive simplification, standardisation and the automation of end-to-end processes.

Our restructuring programme has removed c.900 roles in the period primarily in Global Services and support functions.

In July, we agreed the sale of BT Cables Limited, in line with our strategy to exit non-core businesses, for value. As part of the sale agreement, we have entered into a 3 year cable supply agreement with BT Cables Limited, effective from completion which is expected in Q2 2018/19.

OTHER DEVELOPMENTS

Regulation

Digital Communications Review (DCR)

In June Ofcom issued a report on the progress of the separation of Openreach. We welcome Ofcom's findings that we have made good progress to implement the new regime. We will continue to build on that this year and remain committed to the DCR notification that we sent Ofcom last year.

In July we announced the start of a formal consultation on the transfer of c.31,000 employees to Openreach Limited. The consultation with employees is due to finish by the end of September, with a planned transfer to Openreach Limited on 1 October. This is the final phase in the creation of a more independent, legally separate business.

Ofcom's approach to future regulation

In July Ofcom outlined a package of proposed measures covering the role of regulation in the transition to full fibre networks. Ofcom has reiterated its commitment to promoting greater network competition in fixed markets, including development of proposals focused on unrestricted duct and pole access and potentially dark fibre. It also included proposals for longer review periods and a more holistic approach to reviews for the business and residential wholesale access markets. We believe these proposals would be better aligned with the long term nature of our network investments, but much depends on the detail. Ofcom also outlined its desire for a simpler regulatory model, including deregulation where competitive pressures emerge, ultimately leading to a more geographically differentiated regulatory approach. This is encouraging as Openreach considers increasing its FTTP network deployment commitment. In addition, we acknowledge Ofcom's commitment to its 'fair bet' approach and the principle of allowing regulated prices a fair opportunity to recover costs, including the potential for the adjustment of legacy prices in the transition from copper to fibre networks.

Wholesale Broadband Access (WBA) market review

In June Ofcom released its draft statement for the Wholesale Broadband Access market review. In their draft statement, which has been sent to the European Commission for approval, Ofcom continued to deregulate the market including a decision to reduce the size of the market to 0.9%, removal of the charge control and the removal of Equivalence of Input in Market A. We are now awaiting the release of the final statement.

Broadband Universal Service Obligation (USO)

In April the universal service statutory instrument came into force, setting out the parameters for Ofcom to impose a universal service obligation on communications providers. This included eligibility criteria and the minimum upload and download speeds. In June Ofcom published a call for expressions of interest with responses due at the end of August. Ofcom's objectives are to: (i) deliver the USO as quickly as possible, so consumers benefit as soon as possible; (ii) ensure any designated provider can deliver services that meet the USO specifications; and (iii) ensure that the cost of delivery is minimised. We are currently considering Ofcom's document. We expect a full consultation on the details of designation in the Autumn.

Early Termination Charges investigation

In May Ofcom opened an investigation into EE's charges for early termination. A decision is expected to be made by Ofcom in Q2 2018/19.

Contingent liabilities

There have been no material updates relating to the Legal Proceedings as disclosed in the Annual Report & Form 20-F 2018.

Forward-looking statements – caution advised

Certain statements in this trading update 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 2018/19 including revenue, EBITDA and free cash flow; our deployment of ultrafast broadband and roll out of Gfast technology and 4G coverage; and the trial of 5G technology.

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, consultations and market reviews, 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; Ofcom's consultations on the Wholesale Broadband Access Market, the USO, the DCMS Future Telecoms Infrastructure Review and greater FTTP deployment, as well as competition from others; 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; 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 and synergies of the transformation of our operating model, integration, restructuring and cost transformation not being delivered; the outcome of the BT Italian business investigations and BT's broader review of financial processes, systems and controls across the Group; 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.

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, earnings before interest, tax, depreciation and amortisation (EBITDA), profit before tax, 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 Executive 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.
2) Trends in underlying revenue excluding transit 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.

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 five customer-facing units: Consumer, Business and Public Sector, Wholesale and Ventures, Global Services 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