Trading update

Results for the nine months to 31 December 2021
BT Group plc
3 February 2022

Philip Jansen, Chief Executive, commenting on the results, said

"BT has had a good quarter with encouraging market share performance, and we continued to make significant improvements in customer service, although revenue from our enterprise divisions was softer than we expected.

We had another record-breaking quarter on our full fibre build and a pleasing 37% increase in FTTP connections following the launch of Openreach's wholesale pricing offer. Our 5G build is also on track and now covers over 40% of the UK population with independently verified network leadership.

Today sees two important strategic partnership announcements on how BT moves forward in the fast-evolving content and TV business. The agreement in principle with Sky will provide our customers more choice and more flexibility for the next decade. Separately, we are excited at the prospect of a new joint venture between BT Sport and Eurosport UK as we enter into exclusive discussions with Discovery."

BT Group plc (BT.L) today announced its trading update for the nine months to 31 December 2021.

Strong operating momentum delivered by record customer experience and FTTP build:

- Reached agreement in principle with Sky for a new longer-term reciprocal channel supply deal to beyond 2030
- Separately, entered exclusive discussions with Discovery to create a joint venture with BT Sport and Eurosport UK
- Delivered record FTTP build of 662k at an average rate of over 50k per week in the quarter with footprint now at 6.5m, including 2m rural premises
- FTTP take up accelerated to 1.5m premises driven by Openreach's Equinox offer
- 5G ready customer base over 6.4m; 5G now covers more than 40% of the UK population
- According to RootMetrics, EE again has the UK's best 4G and 5G networks
- Highest ever NPS result for BT Group

Continued EBITDA growth with revenue challenges due to delayed Covid-19 recovery and supply chain issues[1]:

- Revenue £15,676m, down 2%; declines primarily in Global and Enterprise partly offset by growth in Openreach; adjusted[2] revenue down 3%
- Adjusted[2] EBITDA £5,708m, up 2%; driven by tight cost management, lower indirect commissions and higher revenue from Ethernet and fibre-enabled products, partly offset by declining revenue in Global and Enterprise
- Reported profit before tax £1,537m, down 3%, primarily due to higher finance expenses and depreciation and amortisation, partly offset by increased EBITDA
- Normalised free cash flow[2] £878m, up 6%, primarily due to increased EBITDA, lower cash tax payments and improved working capital, offset by higher cash capital expenditure and one-off items in the prior year
- Capital expenditure up 24% to £3,752m, primarily due to investment in spectrum, FTTP and mobile network
- Group adjusted[2] revenue now expected to be down around 2% for FY22 as a result of Covid-19 and supply chain issues; all other outlook metrics unchanged

Nine months to 31 December	2021	2020	Change
Reported measures	**£m**	£m	%
Revenue	**15,676**	16,058	(2)
Profit before tax	**1,537**	1,591	(3)
Profit after tax	**886**	1,276	(31)
Capital expenditure	**3,752**	3,030	24

Adjusted measures			
Adjusted[2] revenue	**15,677**	16,084	(3)
Adjusted[2] EBITDA	**5,708**	5,603	2
Normalised free cash flow[2]	**878**	830	6
Capital expenditure excluding spectrum	**3,273**	3,030	8
Net debt[2,3]	**17,741**	17,294	£447m

[1] All commentary relates to the nine months to 31 December 2021 unless otherwise stated.
[2] See Glossary on page 4.
[3] Net debt was £17,802m at 31 March 2021.

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Overview of the nine months to 31 December 2021

CUSTOMER-FACING UNIT UPDATES

	Adjusted[1] revenue			Adjusted[1] EBITDA		
Nine months to 31 December	**2021**	2020	Change	**2021**	2020	Change
	£m	£m	%	**£m**	£m	%
Consumer	**7,442**	7,494	(1)	**1,705**	1,610	6
Enterprise	**3,867**	4,086	(5)	**1,252**	1,268	(1)
Global	**2,525**	2,823	(11)	**321**	440	(27)
Openreach	**4,068**	3,898	4	**2,368**	2,211	7
Other	**20**	18	11	**62**	74	(16)
Intra-group items	**(2,245)**	(2,235)	—	**—**	—	—
Total	**15,677**	16,084	(3)	**5,708**	5,603	2

Third quarter to 31 December	**2021**	2020	Change	**2021**	2020	Change
	£m	£m	%	**£m**	£m	%
Consumer	**2,585**	2,621	(1)	**628**	535	17
Enterprise	**1,295**	1,376	(6)	**400**	435	(8)
Global	**871**	907	(4)	**114**	151	(25)
Openreach	**1,361**	1,313	4	**807**	758	6
Other	**6**	6	—	**11**	3	267
Intra-group items	**(749)**	(746)	—	**—**	—	—
Total	**5,369**	5,477	(2)	**1,960**	1,882	4

Consumer: Solid trading, strong EBITDA performance and positive momentum in key leading indicators

Revenue marginally down primarily due to the decline of our legacy BT voice product and lower postpaid mobile revenue as a consequence of reduced market activity and continued handset to SIM-only migration. This was partially offset by continued growth in the BT broadband base, and stronger BT Sport revenue following the cancellation of sporting fixtures last year due to Covid-19. EBITDA improved driven by lower indirect commissions and tight cost management, more than offsetting the benefit of prior year sports rights rebates recognised in H1 FY21. EBITDA in Q3 FY22 also benefited from a number of small one-off items. Our FTTP base is now over 1m increasing by 108k in the quarter, our highest ever quarterly increase, and the 5G ready base now stands at over 6.4m with the continued rollout at pace of EE's 5G network. Our strong customer focus has resulted in churn staying near record lows and we achieved our highest ever NPS results for both BT and EE consumer brands. In the latest published Ofcom complaints data BT and EE complaints rates were below industry average with EE having the lowest complaints rate for broadband and landline and was joint lowest for mobile. According to RootMetrics, EE again has the UK's best 4G and 5G networks with 5G in more places than any other network.

Enterprise: Continued revenue pressures partially offset by strong cost performance

Revenue was down due to continued declines in legacy products and contracts, and the ongoing migration of a MVNO customer in Wholesale. EBITDA fell, with the reduction in revenue partly offset by lower costs including the benefit of our cost transformation programme, strong delivery performance in our Emergency Services Network and a £10m gain on fixed asset disposals in Wholesale. EBITDA in the quarter fell, reflecting trading declines as well as the timing of profit recognition within some of our larger contracts, partly offset by cost savings. BT Wholesale secured a significant multi-data centre deal with BAI Communications to support their contract to deliver connectivity solutions for the London Underground. On a 12-month rolling basis, Retail order intake fell 16% to £2.7bn and Wholesale order intake fell 22% to £0.9bn, largely due to major contract extensions in Q4 FY20. We continue driving improved customer experience within the SoHo and SME markets and achieved our best ever NPS results for SME.

Global: Continued challenging market conditions partly offset by strong cost transformation

Revenue decline was primarily due to continued challenging market conditions, the impact of prior year divestments, and a £100m negative foreign exchange movement, partly offset by relationship-driven lower margin equipment sales. Revenue excluding divestments and foreign exchange declined by 3% reflecting reduced customer business activity, resulting in delays in project-based spend and higher margin change control sales, a trend expected for the remainder of this financial year. EBITDA decline reflected lower revenues, the impact of prior year divestments and a £23m negative foreign exchange movement, partially offset by lower operating costs from ongoing transformation and rigorous cost control. EBITDA, excluding divestments, one-offs and foreign exchange was down by 19%. Order intake for the quarter was £1.0bn, down 19%, which included an extension to our contract with DHL. On a rolling 12-month basis order intake was £3.4bn, down 16%. This decline reflects a combination of large renewals in the prior year along with longer customer purchasing cycles and lower than expected levels of demand. However, our growth product portfolio has continued to increase, now representing broadly half of the order intake this year. During the quarter, we added conferencing capability to the existing Microsoft Operator Connect voice service. In January, we announced a partnership agreement with Rackspace Technology to transform our cloud services, making it easier for multinational customers to move data and workloads to multicloud environments.

[1] See Glossary on page 4. Commentary on revenue and EBITDA is based on adjusted measures.

Openreach: Revenue and EBITDA growth; FTTP build on track

Revenue growth was driven by higher rental bases in fibre-enabled products[1], up 10%, and Ethernet, up 6%. This was partially offset by declines in legacy products including a reduction of 175k WLR voice lines supporting FTTP lines. EBITDA grew with revenue growth, lower repair volumes, ongoing efficiency programmes and a £10m one-off in the quarter partially offset by higher operating costs. The increase in operating costs was primarily driven by increased FTTP provisioning activity, higher running costs, recruitment and investment in people. We delivered a record FTTP build of 662k in the quarter at an average rate of over 50k per week; we are over a quarter of the way through our 25m build with a footprint of 6.5m. Our FTTP base continues to grow; we now have over 1.5m end customers, a growth of 244k in the quarter accelerated by Equinox. Over 64% of FTTP orders in Q3 were for ultrafast speeds, and 48% of all FTTP orders in Q3 were from communication providers external to the BT Group. Our rural build is progressing well with 2m premises passed. We continue to see good traction and performance on Equinox, with 16 communication providers now onboard. We are on track to deliver all 30 of our quality of service standards, and despite the impacts of storms Arwen and Barra, we delivered a best ever Q3 on time repair of 85.7% and a best ever quarter for on time provision of 95.7%. Our end customer sentiment remains high with over 91% of customer survey responses scoring us 8 or more out of 10.

[1] FTTP, FTTC and Gfast (including Single Order migrations).

FINANCIALS FOR THE NINE MONTHS TO 31 DECEMBER 2021

Income statement

Reported revenue was £15,676m, down 2% or £382m, with declines primarily in Global and Enterprise partly offset by growth in Openreach. The decline was driven by ongoing legacy product declines, the impact of prior year divestments, lower postpaid mobile revenue and foreign exchange, partially offset by higher revenue from Ethernet and fibre-enabled products and stronger sports revenue following prior year sports fixture cancellations.

Adjusted[1] EBITDA of £5,708m was up 2% or £105m, driven by Consumer and Openreach. Growth was primarily due to tight cost management, cost reductions from ongoing transformation programmes, lower indirect commissions and higher revenue from Ethernet and fibre-enabled products, partially offset by declining revenue in Global and Enterprise.

Reported profit before tax was £1,537m, down 3% or £54m, primarily due to higher finance expenses and depreciation and amortisation, partly offset by increased EBITDA.

Tax

The effective tax rate on reported profit was 42.4% (FY21: 19.8%), which mainly reflects the remeasurement of our deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023. The effective tax rate on adjusted[1] profit was 15.3% (FY21: 19.9%, Q2 FY22: 15.3%), based on our current estimate of the full year effective tax rate. This is lower than last year as we expect a large proportion of our capital spend on fibre roll-out to be eligible for the UK government's super-deduction regime, which allows tax relief for qualifying capital expenditure.

Capital expenditure

Capital expenditure was £3,752m (FY21: £3,030m), up 24%, primarily due to investment in spectrum and increased FTTP and mobile network investment.

Normalised free cash flow

Normalised free cash flow[1] was up £48m to £878m, primarily due to increased EBITDA, lower cash tax payments and improved working capital due to increased use of our supply chain financing programme, offset by higher cash capital expenditure and one-off items in the prior year.

Net debt and liquidity

Net financial debt (which excludes lease liabilities) at 31 December 2021 was £11.9bn, £0.2bn higher than at 31 March 2021 (£11.7bn), with net capital expenditure (after spectrum refund), pension contributions and net interest payments, more than offsetting net cash inflow from operating activities.

Net debt[1] including lease liabilities was £17.7bn at 31 December 2021, £0.1bn lower than at 31 March 2021 (£17.8bn).

Bond issue

Issued USD1bn in two equally sized hybrid bond tranches to further strengthen our balance sheet and support our credit rating target.

Outlook

As a result of the ongoing impact of Covid-19 and supply chain issues, we now expect Group adjusted[1] revenue for FY22 to decline by around 2% compared with the prior year. All other outlook metrics remain unchanged.

	FY22 outlook	FY23 outlook
Change in adjusted[1] revenue	**Down c.2%**	**Growth**
Adjusted[1] EBITDA	**£7.5bn-£7.7bn**	**> £7.9bn**
Capital expenditure[1,2]	**c.£4.9bn**	**≤ £4.8bn**
Normalised free cash flow[1]	**£1.1bn-£1.3bn**	**-**

We remain confident in the delivery of long-term normalised free cash flow growth; by the end of the decade we expect an expansion of at least £1.5bn in normalised free cash flow compared to FY22, solely from lower capex and operating costs as we move towards an all-fibre, all-IP network, before any benefits of increased revenue and further transformation efficiencies, net of tax.

[1] See Glossary on page 4.
[2] Excludes spectrum.

Glossary

Adjusted	Before specific items. Adjusted results are consistent with the way that financial performance is measured by management and assist in providing an additional analysis of the reporting trading results of the group.
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Adjusted EBITDA	EBITDA before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense.
Free cash flow	Net cash inflow from operating activities after net capital expenditure.
Capital expenditure	Additions to property, plant and equipment and intangible assets in the period.
Normalised free cash flow	Free cash flow (net cash inflow from operating activities after net capital expenditure) after net interest paid and payment of lease liabilities, before pension deficit payments (including cash tax benefit), payments relating to spectrum, and specific items. For non-tax related items the adjustments are made on a pre-tax basis. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends, share buybacks, acquisitions and disposals, and repayment and raising of debt.
Net debt	Loans and other borrowings and lease liabilities (both current and non-current), less current asset investments and cash and cash equivalents, including items which have been classified as held for sale on the balance sheet. Currency denominated balances within net debt are translated into sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed.
Specific items	Items that in management's judgement need to be disclosed separately by virtue of their size, nature or incidence. In the current period these relate predominantly to restructuring charges linked with our modernisation programme, divestment related items and net interest expense on pensions.

Our commentary focuses on the trading results on an adjusted basis, which is a non-GAAP measure, being before specific items. The directors believe that presentation of the group's results in this way is relevant to an 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. 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. 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. Reported revenue, reported operating costs, reported operating profit and reported profit before tax are the equivalent unadjusted or statutory measures.

Enquiries

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We will hold a conference call for analysts and investors at 10am today and a simultaneous webcast will be available at www.bt.com/results.

We are scheduled to announce the full year results for FY22 on 12 May 2022.

Forward-looking statements – caution advised

Certain information included in this results release is forward looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward looking statements. Forward looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and BT's plans and objectives for future operations. Forward looking statements can be identified by the use of forward looking terminology, including terms such as 'believes', 'estimates', 'anticipates', 'expects', 'forecasts', 'intends', 'plans', 'projects', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology. Forward looking statements in this results release are not guarantees of future performance. All forward looking statements in this results release are based upon information known to BT on the date of this results release. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward looking statements, which speak only at their respective dates. Additionally, forward looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority), BT undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise. Nothing in this results release shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

About BT

BT Group is the UK's leading telecommunications and network provider and a leading provider of global communications services and solutions, serving customers in 180 countries. Its principal activities in the UK include the provision of fixed voice, mobile, broadband and TV (including Sport) and a range of products and services over converged fixed and mobile networks to consumer, business and public sector customers. For its global customers, BT provides managed services, security and network and IT infrastructure services to support their operations all over the world. BT consists of four customer-facing units: Consumer, Enterprise, Global and its wholly-owned subsidiary, Openreach, which provides access network services to over 650 communications provider customers who sell phone, broadband and Ethernet services to homes and businesses across the UK.

For the year ended 31 March 2021, BT Group's reported revenue was £21,331m with reported profit before taxation of £1,804m.

British Telecommunications plc 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 the London Stock Exchange.

For more information, visit www.bt.com/about.