Trading update

Results for the three months to 30 June 2021
BT Group plc
29 July 2021

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

"Our operational performance remained strong and our EBITDA grew during the first three months of the year, reflecting improved trading across most of our business and the positive benefits of our plans to modernise BT. Our results were overall in line with our expectations during the quarter, with good performance in the UK offsetting challenging conditions in Global's markets.

"We're powering ahead with our network build programmes: Openreach has now built full fibre broadband to more than 5m premises with growing customer demand; EE has set out plans for 5G on demand anywhere in the UK by 2028. We've also reached a partnership agreement with our largest trade union, the CWU[1], allowing us to keep our modernisation plans on track.

"We continue to invest in new strategic growth areas and have also today announced a strengthened strategic partnership with Microsoft that will see us accelerate co-innovation across all areas of our business, including enterprise voice and cyber security, supporting our growth strategy.

"With trading conditions expected to see some improvement through the year, we have confirmed our outlook and remain confident that BT is on a path to growth."

BT Group plc (BT.L) today announced its trading update for the three months to 30 June 2021.

Key strategic developments:

- Openreach announced an offer for communications providers giving long-term price certainty on FTTP to drive widespread adoption of ultrafast, ultra-reliable full fibre broadband
- Announced long-term mobile network plans including: a 5G network that covers over 90% of the UK's landmass by 2028; 4,500 square miles of new rural 4G coverage by 2025; and retiring legacy 3G services by 2023
- Announced a strengthened strategic partnership with Microsoft to accelerate innovation across enterprise voice, cyber security and industry-focussed services
- Reached agreement with the CWU[1] that recognises the need for change, ensures our colleagues continue to be treated fairly and with respect as we remain on track to modernise BT
- Announced the launch of our new SoHo (Single/Small office, Home office) unit in Enterprise
- Completed the sale of business units in Italy serving customers in the public administration and SME sectors
- Invested in Safe Security, a leader in cyber risk quantification, reflecting our increased focus on security
- Launched our Hope United campaign using the power of football to tackle online hate, as we continue to lead on the responsible use of technology

Strong operational performance with continued focus on our network growth:

- Openreach FTTP network now covers 5m premises; increased our rural FTTP target to 6.2m premises as part of our programme to reach 25m premises by the end of 2026
- Openreach announced it will stop selling legacy products to a total of 3m premises across 297 exchanges from April 2022
- Launched Home Essentials, an industry-leading social tariff available to 4.6m low income households
- Strong growth in FTTP connections and 5G-ready customer base in Consumer
- Revamped our converged Halo for business broadband bundles to provide 900Mbps full fibre and Unbreakable Wi-Fi
- Half of total Global orders won in the quarter were for products in our growth portfolio

Financials on track to deliver outlook and a path to growth:

- Revenue £5,071m, down 3%; revenue has grown in Consumer and Openreach, and remained flat in the SME sector, more than offset by declines in the Corporate and Public Sector segment in Enterprise and in Global
- Adjusted[2] EBITDA £1,866m, up 3%; all units have delivered EBITDA growth, with the exception of Global
- Reported profit before tax £536m, down 4% despite higher adjusted[2] EBITDA, primarily due to the prior year gain on disposal of our domestic Spanish operations
- Reported profit after tax £2m, down £446m, due to a one-off tax charge in the quarter to reflect the remeasurement of deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023
- Normalised free cash flow[2] £(43)m, up 12%, due to improved EBITDA and lower cash tax payments, offset by higher cash capital expenditure
- Capital expenditure up 63% to £1,507m, primarily due to investment in spectrum; capital expenditure excluding spectrum payments up 9% to £1,011m, primarily due to FTTP provisioning activities, mobile network spend and non-network infrastructure due to the Better Workplace programme
- No change to FY22 or FY23 outlook

Three months to 30 June	2021	2020	Change
	£m	£m	%
Reported measures			
Revenue	**5,071**	5,248	(3)
Profit before tax	**536**	561	(4)
Profit after tax	**2**	448	(100)
Capital expenditure	**1,507**	927	63
Adjusted measures			
Adjusted[2] Revenue	**5,070**	5,250	(3)
Adjusted[2] EBITDA	**1,866**	1,813	3
Normalised free cash flow[2]	**(43)**	(49)	12
Capital expenditure excluding spectrum	**1,011**	927	9
Net debt[2,3]	**18,566**	18,157	£409m

[1] Communications Workers Union.
[2] See Glossary on page 3.
[3] Net debt was £17,802m at 31 March 2021.

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Overview of the three months to 30 June 2021

CUSTOMER-FACING UNIT UPDATES

	Adjusted[1] revenue			Adjusted[1] EBITDA		
First quarter to 30 June	**2021**	2020	Change	**2021**	2020	Change
	£m	£m	%	**£m**	£m	%
Consumer	**2,382**	2,362	1	**523**	501	4
Enterprise	**1,287**	1,352	(5)	**429**	406	6
Global	**785**	990	(21)	**102**	141	(28)
Openreach	**1,347**	1,286	5	**773**	729	6
Other	**8**	4	100	**39**	36	8
Intra-group items	**(739)**	(744)	1	**—**	—	—
Total	**5,070**	5,250	(3)	**1,866**	1,813	3

Consumer: Solid start as lockdown restrictions eased. Strong customer focus resulting in churn nearing record lows.
Revenue has grown, primarily driven by BT Sport and higher direct handset sales, as the first quarter saw the easing of lockdown restrictions allowing pubs, clubs and our retail stores to reopen, although retail footfall and sales remain lower than pre-pandemic levels.
Year on year fixed and mobile revenues are down due to the ongoing impact of Covid-19, lower out of contract price rises, copper price reductions to address back book pricing, and the continued decline of our voice only customer base and call volumes. Increased SIM-only mix and a greater proportion of direct channel sales also diluted postpaid ARPC.
EBITDA increased due to revenue growth, lower indirect commissions (following the expiry of the retail agreement with Dixons Carphone in FY21) and tight cost management. These more than offset the one-off sports rights rebates recognised in Q1 last year, although the substantial majority of these benefited Q2 FY21.
Quarter on quarter positive Q1 trading, aided by growth in our strategic customer bases and converged products, as well as the CPI+ price rise has slowed the decline in fixed and postpaid ARPCs.
Our FTTP base has grown by 107k quarter on quarter, our largest ever quarterly increase. Our 5G ready base now stands at over 4m. Our class-leading mobile network was this month ranked by RootMetrics as the UK's number one network for the eighth year running.

Enterprise: Strong EBITDA growth driven by lower costs.
Revenue was down primarily due to continuing declines in legacy products, in particular fixed voice which fell by 8%, the ending of some legacy contracts over the past year, and a decline in low-margin equipment sales. Wholesale mobile revenue fell by 8% primarily due to the ongoing migration of an MVNO customer. This was partly offset by growth in new products and retail mobile revenue. Revenue was flat in SME, but declined in Corporate and Public Sector and Wholesale.
EBITDA increased mainly driven by strong delivery performance on our Emergency Services Network contract, a £10m gain on fixed asset disposals in Wholesale, and lower costs including the benefit of our cost transformation programme.
Retail order intake fell 16% to £2.8bn and wholesale order intake fell 11% to £0.9bn on a 12-month rolling basis. The declines in both retail and wholesale orders are largely due to major contract extensions in Q4 FY20. Retail order intake in the quarter was £0.7bn, up 43%; wholesale order intake in the quarter was £0.1bn, up 28%. In the quarter, we implemented a new operating model with a sharper segment and commercial focus. This included the creation of a new segment dedicated to SoHo (Single/Small office, Home office) customers, an area of significant growth serving millions of UK firms. In addition, we revamped our converged Halo for business broadband bundles to offer mobile back-up, Complete Wi-Fi and full fibre speeds of up to 900Mbps.

Global: Challenging market conditions as a result of Covid-19 partly offset by strong cost transformation.
Revenue decline primarily due to more challenging than expected market conditions resulting from Covid-19, the impact of prior year divestments, and a £39m negative foreign exchange movement. Revenue excluding divestments and foreign exchange declined by 12% as customer business activity reduced, resulting in delayed project-based spend and equipment sales. The prior year also benefited from increased revenue, including high-margin conferencing minutes, as customers went into lockdown for the first time.
EBITDA decline reflected lower revenues and a £6m 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 on a rolling 12-month basis was £3.4bn, down 26%. This decline reflects a number of large renewals in the prior year, ongoing delays to purchasing processes and lower than expected levels of demand and non-contracted spend. However, the proportion of order intake represented by our growth product portfolio has continued to increase. It represented just over half of total orders won in the quarter, compared with a third in the prior year.
The challenging market conditions are expected to continue impacting both order intake and trading performance in the first half of this year. However, Global is well positioned to benefit from some market recovery anticipated in the second half.
At the end of June we completed the sale of business units in Italy serving customers in the public administration and SME sectors. We also made a strategic investment in Safe Security, a leader in cyber risk quantification. Safe Security provides services which enable organisations to measure their susceptibility to various forms of cyber-attack and reflects our increasing focus on security as a key growth area for BT.

Openreach: Revenue and EBITDA growth driven by full fibre volumes.
Revenue growth was driven by higher rental bases in fibre-enabled products[2], up 14%, and Ethernet, up 7%, and higher provisioning due to the Covid-19 impact of suppressed activity in the first quarter of the prior year. This was partly offset by declines in legacy copper products. Our FTTP base continues to grow; we now have over 1m end customers and over 50% of new customers are buying ultrafast products.
EBITDA grew 6% driven by revenue growth and ongoing efficiency programmes, partially offset by higher operating costs. The increase in operating costs was primarily driven by higher repair volumes, increased provision activity, and recruitment and investment in people.
In Q1 we delivered record on time repair performance of 87.9%, despite poor weather and a significant number of people working from home.

[1] See Glossary on page 3. Commentary on revenue and EBITDA is based on adjusted measures.
[2] FTTP, FTTC and Gfast (including Single Order migrations).

FINANCIALS FOR THE THREE MONTHS TO 30 JUNE 2021

Income statement

Reported revenue was £5,071m, down 3% or £177m, primarily due to challenging market conditions resulting from Covid-19, the impact of prior year divestments, negative foreign exchange movements, and ongoing legacy product declines. This was partially offset by higher rental bases in fibre-enabled products and Ethernet in Openreach, and improved BT Sport and handset revenue in Consumer as a result of the easing of lockdown restrictions. Revenue has grown in Consumer and Openreach, and remained flat in the SME sector, more than offset by declines in the Corporate and Public Sector segment in Enterprise and in Global.

Adjusted[1] EBITDA of £1,866m was up 3% or £53m, due to lower cost of sales, cost savings from our ongoing transformation programme, lower indirect commissions and a one-off disposal of fixed assets, which more than offset the revenue decline and prior year benefit of one-off sports rights rebates. All units have delivered EBITDA growth, with the exception of Global.

Reported profit before tax was £536m, down 4% or £25m, primarily due to the prior year gain on disposal of our domestic Spanish operations, despite higher adjusted[1] EBITDA.

Tax

The effective tax rate was 18.2% on adjusted[1] profit, based on our current estimate of the full year effective tax rate. There was a one-off tax charge in the quarter of £439m to reflect the remeasurement of deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023. As a result, reported profit after tax was £2m, down £446m.

Capital expenditure

Capital expenditure was £1,507m (2020/21: £927m), up 63%, primarily due to investment in spectrum of £496m. Other increases include FTTP provisioning activities, mobile network spend and non-network infrastructure due to the Better Workplace programme.

Normalised free cash flow

Normalised free cash flow[1] improved by £6m to an outflow of £43m, due to improved EBITDA and lower cash tax payments, offset by higher cash capital expenditure.

Net debt and liquidity

Net financial debt (which excludes lease liabilities) at 30 June 2021 was £12.5bn, £0.8bn higher than at 31 March 2021 (£11.7bn), with net capital expenditure (after spectrum refund), pension contributions, net interest payments, payment of lease liabilities, share purchases and the acquisition of BT OnePhone Limited, more than offsetting net cash inflow from operating activities.

Net debt[1] including lease liabilities was £18.6bn at 30 June 2021, £0.8bn higher than at 31 March 2021 (£17.8bn).

Outlook

No change to FY22 or FY23 outlook.

[1] See Glossary on page 3.

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.

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

We are scheduled to announce the half year results for FY22 on 4 November 2021.

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.