



Regulatory Financial Commentary 2025

July 2025



BT Group



Disclaimer

This document contains **BT's commentary on the Regulatory Financial Statements (RFS) for the year ended 31 March 2025**. It reflects our own view and interpretation of the results presented in the RFS and has been produced without any involvement from Ofcom. We have chosen to make this commentary available to assist people with an interest in the regulatory results, to understand them and to understand our interpretation of them. The content of this document and its publication do not form part of our regulatory reporting obligations arising from the SMP conditions imposed on BT.

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1. Introduction

Under the UK telecommunications regulatory framework, Ofcom regularly reviews markets to assess whether they are tending towards effective competition. Where companies are found to have ‘Significant Market Power’ (SMP), Ofcom imposes conditions accordingly. These include “Regulatory Financial Reporting”, a SMP condition that requires the production of the Regulatory Financial Statements (RFS). This commentary document explains our results in the markets where we¹ are deemed to have SMP for the year ended 31 March 2025 and should be read in conjunction with the RFS for that year. We also explain how the RFS results relate to the financial results presented in the [BT Group Annual Report](#).

1.1 What are the Regulatory Financial Statements (RFS)?

The purpose of regulatory financial reporting is to provide Ofcom with the information necessary to:

- Effectively regulate the SMP markets, particularly the price controls.
- Help make informed regulatory decisions, such as cost information to support ongoing price controls.
- Assess the impact and effectiveness of decisions, for example trends in the usage of regulated services.
- Monitor compliance with SMP conditions.

For this reason, Ofcom directs BT to produce the RFS according to a defined framework and methodology. The RFS are a set of annual product profitability statements showing performance summary by SMP market (as defined by Ofcom) broken down by revenue, operating cost and capital employed. Ofcom’s Wholesale Fixed Telecoms Market Review (WFTMR) 2021 directions² include what information should be published and which allocations and accounting principles to use while preparing that information. We take the revenues and costs for BT Group and apportion these to relevant products and services based on the rules as directed by Ofcom. The resulting key differences between the RFS and the BT Group Annual Report are discussed in Section 5.

¹ The terms ‘the Group’, ‘the Company’, ‘BT’, ‘we’, ‘us’ or ‘our’ refer collectively to BT Group plc and its subsidiary undertakings.

² Ofcom’s “Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-2026 Statement” published on 18 March 2021 for Openreach SMP markets.

1.2 Ofcom's WACC

Ofcom estimates forward-looking pre-tax Weighted Average Cost of Capital (WACC) at the time of the relevant market review. In the RFS, BT's actual returns on capital employed are measured as a pre-tax return on MCE³ (Return on Capital Employed, or ROCE). The reported ROCEs may differ from Ofcom's WACC over the lifecycle of a product as set out in section 3.

This commentary explains the differences between BT's ROCEs in FY25 and Ofcom's estimated forward looking WACC as set for five years in the WFTMR 2021. Ofcom disaggregated its estimate of BT Group's WACC into Openreach legacy services at 7% (including copper and FTTC), and Other UK Telecoms (OUKT) at 7.8% including Openreach's leased lines and other products. Ofcom will update its estimates of WACC in the Telecoms Access Review (TAR) 2026 which will apply from FY27 onwards.

Our returns on regulated services are impacted by Ofcom's specific policy choices made in different markets. This can include regulation focused on managing returns towards or at cost plus a return, based on Ofcom's view on the regulated WACC, or regulation designed to incentivise investment and competition. The Government's Strategic Steer to Ofcom set out that "*promoting investment [in gigabit capable broadband] should be prioritised over interventions to further reduce retail prices in the near term.*"⁴.

Ofcom implemented this steer in its fixed access network policies (WFTMR 2021, being revisited in the TAR 2026), promoting investment and market entry by removing direct links between costs and prices for broadband and leased lines services. This approach gives industry the flexibility to invest and innovate in pricing, whilst delivering higher quality services to end customers. As a result, Ofcom acknowledges returns in excess of WACC can support its aim to achieve longer term and wider dynamic investment and competition benefits.

Alongside these pricing policies, Ofcom's "fair bet" principle is designed to allow for fibre returns above the cost of capital over the life of a regulated investment in recognition of associated downside risks. Given that the early years of fibre investment will see negative in-year returns with high fixed costs and lower take-up, the fair bet principle explicitly allows for potentially higher in year returns in later years. This supports the opportunity for lifetime returns above the WACC⁵.

Ofcom did not determine a disaggregated WACC for FTTP in the WFTMR 2021. However, it noted "*that the systematic risk of FTTP could be higher than the average activity within OUKT, which would imply a bigger difference in the relative betas of copper-based and FTTP services.*"⁶ Therefore, whilst Ofcom did not see a specific reason to determine a WACC for FTTP for the purposes of the WFTMR, it has acknowledged that the WACC would be higher than that of OUKT services.

³ Mean Capital Employed (MCE) is calculated as the arithmetic mean of the opening and closing capital employed in the year.

⁴ DCMS, 2019. Statement of Strategic Priorities for telecommunications, the management of radio spectrum, and postal services. Page 8,18.

⁵ In WFTMR 2021 Ofcom's noted "an investment is a 'fair bet' if, at the time of investment, the expected return is equal to the cost of capital". In other words, should Ofcom consider it necessary to set regulated prices for higher speed FTTP products, it will only do so if investors have had sufficient opportunity to make lifetime returns above the cost of capital commensurate with the downside risk they took when taking the decision to invest. Wholesale Fixed Telecoms Market Review 2021-26; Volume 4, 1.114 to 1.117.

⁶ Wholesale Fixed Telecoms Market Review 2021-26; Annex 21, A21.107.

2. Adjustments to Results for Interpretation

Ofcom directs the “RFS are prepared on a current cost accounting (CCA) basis, which means assets are valued using an estimate of their current replacement cost rather than on historical cost”⁷. During periods of positive inflation assets are revalued upwards resulting in gains reflected in the RFS reported return, therefore periods of unstable annual inflation can have a distorting effect on the results presented in the RFS.

To aid comparability, we have normalised the FY25 and FY24 results for inflation. Specifically, we have calculated the in-year P&L holding gains on copper, duct and poles assuming that RPI inflation had been 2.4% in both years (in line with Ofcom market review assumptions⁸). We have not adjusted for: (1) MCE as the increase in asset values is over the lifetime of assets and these are carried forward into future periods; and (2) Other CCA impacts (Supplementary Depreciation and ‘other CCA adjustments’). The impact of this adjustment can be seen in the table below:

Openreach SMP Market	RFS Return	Adjustment	Adjusted Return	RFS Return	Adjustment	Adjusted Return
	£m	£m	£m	£m	£m	£m
	FY25			FY24 Restated		
Physical Infrastructure	522	(0) ⁹	522	493	(0)	493
Wholesale Local Access	482	(60)	422	149	(124)	25
Business Connectivity	478	(6)	472	388	(14)	374
Shared Ancillaries	48	0	48	40	0	40
Openreach SMP	1,530	(66)	1,464	1,070	(138)	932

⁷ Asset valuation, Wholesale Fixed Telecoms Market Review 2021-26; Volume 6, 4.136.

⁸ Referenced in note 248, Wholesale Fixed Telecoms Market Review 2021-26; Volume 4, 5.24.

⁹ As outlined in section 4.1, Ofcom directs the ROCE for the Physical Infrastructure market equals the WACC. The adjustment to the holding gain is offset by an increase in the internal revenue balancing adjustment, resulting in no change to the market return.

3. Summary of Results

We are required to report costs, revenues and resulting ROCEs for the products and services within each SMP market. It is important to note that ROCEs can fluctuate significantly in cases where the Mean Capital Employed (MCE) is small, and for some services it may be more appropriate to consider ROCE across wider markets.

As directed by Ofcom we restate our prior year reported results to incorporate changes as described in the Reconciliation Report (Appendix 2 to the RFS). The restatements include changes to reporting methodologies and error correction.

Restatements, detailed within Appendix 2 of the RFS, decreased the FY24 ROCE for Openreach SMP markets from 6.5% (published) to 5.5% (restated).

Openreach SMP Market	Adjusted Return	MCE	Adjusted ROCE	Adjusted Return	MCE	Adjusted ROCE
	£m	£m	%	£m	£m	%
	FY25			FY24 Restated		
Physical Infrastructure	522	7,463	7.0%	493	7,046	7.0%
Wholesale Local Access	422	9,016	4.7%	25	7,827	0.3%
Business Connectivity	472	1,878	25.1%	374	1,858	20.1%
Shared Ancillaries	48	180	26.7%	40	178	22.5%
Openreach SMP	1,464	18,537	7.9%	932	16,909	5.5%

- The majority of our products are subject to CPI linked price increases. This ensures that our pricing remains constant in real terms, reflecting the ongoing impact of inflation on our cost base, primarily, the labour and material costs associated with the fibre build. Despite this, we reduced operating costs by approximately 8% across SMP markets in FY25, driven by labour efficiencies from our ongoing cost transformation activities.

After normalising for the impacts of high inflation, ROCEs in each market are aligned with the life cycle expectations for the respective products. The summary below explains the life cycle expectations:

- The RFS ROCE reflects in-year accounting profitability. ROCEs are lower in the early stages of the product life cycle (e.g. FTTP) when the network is being built in advance of demand, incurring more operating costs and depreciation compared with revenue. As products reach a later stage of their life cycle, the end customer base will be developed generating higher revenues and there is limited ongoing investment resulting in lower costs. The mature product later in its life cycle therefore has higher ROCEs, but it is appropriate to consider the ROCE across the whole product life cycle to recognise the upfront costs that are recovered.
- As end customers shift to new and faster products, the ROCE for FTTP will grow and the higher ROCEs for legacy products will decline. Diminishing demand for legacy products towards the end of their life cycle will lead to lower volumes which will only be partially offset by price indexation (allowable by Ofcom to promote investment¹⁰). FTTP ROCE will improve over time as take-up and revenues grow, and the network build is completed.

¹⁰ Price regulation, Wholesale Fixed Telecoms Market Review 2021-26; Volume 4, pg.1; 1.2

4. Market Results

4.1 Physical Infrastructure

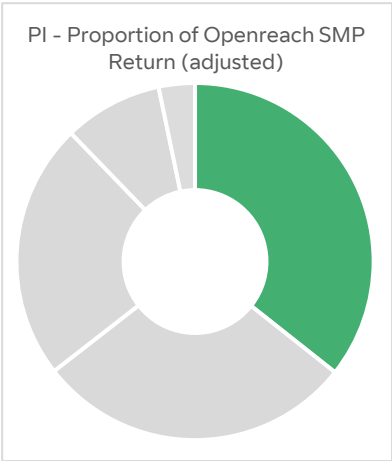
Products

Physical Infrastructure (PI) enables Communications Providers (CPs) to share Openreach’s existing access network infrastructure. CPs can utilise this infrastructure to deploy their own fibre networks. The PI market includes all the costs and assets relating to our physical infrastructure, revenues received from CPs sharing the infrastructure and a recharge to downstream markets (such as WLA, LLA and IEC) for their use of the infrastructure.

As outlined in WFTMR, Ofcom sets the rental charges for Physical Infrastructure Access (PIA) services that must be paid by telecoms providers other than Openreach based on their assessment of fair cost-sharing¹¹. A key objective of this pricing approach is to ensure fair competition between Openreach and other providers that use PIA to deliver their own services. These charges are not intended to be paid by Openreach itself. Instead, Openreach is required to recover any remaining costs through charges to its own downstream services.

In line with Ofcom’s guidance¹², we apply internal recharges to our downstream markets to recover the costs of the PI market. The internal revenue this generates acts as a balancing figure to ensure that the PI market achieves a ROCE of 7.0%. As a result, internal revenue cannot be calculated as price multiplied by volume as there is no fixed internal price. Instead, reported internal prices are calculated by dividing the balancing revenue over the internal volumes. Consequently, internal and external prices will not align.

Furthermore, we estimate our internal use of infrastructure using data from Openreach physical asset inventories and the assumptions used in Ofcom’s pricing model. These estimates reflect the combined use of our infrastructure by our copper access, fibre access, and interexchange fibre networks. The majority of this usage is currently driven by our copper access cables but we expect this usage to reduce in future as we transition towards a full fibre network.



¹¹ Wholesale Fixed Telecoms Market Review 2021-26; Volume 4, pg.71-72

¹² Wholesale Fixed Telecoms Market Review 2021-26; Volume 6, pg.39-40; paragraphs 3.135-3.140

Adjusted Returns

	Revenue	Cost	Return	MCE	ROCE	Revenue	Cost	Return	MCE	ROCE	Ofcom
	£m	£m	£m	£m	%	£m	£m	£m	£m	%	WACC %
PI Market	FY25					FY24 Restated					7.0%
	863	341	522	7,463	7.0%	870	377	493	7,046	7.0%	

External revenue has increased by 82% from FY24 to £60m in FY25. There are more than 140 providers using access to Physical Infrastructure¹³ as 6.6% of volumes are now sold externally.

The ongoing investment in Physical Infrastructure to support the fibre deployment has increased total MCE by £417m. The growth in the asset base has driven higher holding gains which, alongside ongoing net labour cost reductions, have reduced adjusted operating costs.

4.2 Wholesale Local Access

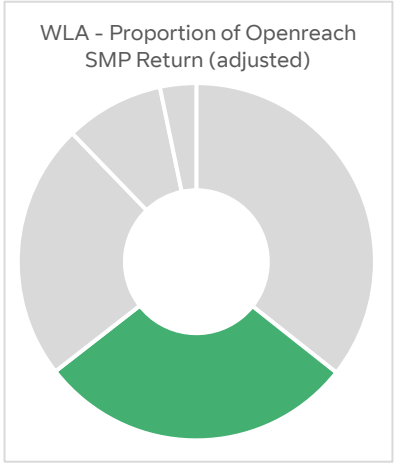
Products

Wholesale Local Access (WLA) refers to copper and fibre lines used by Communication Providers (CPs) to connect a wide range of end customers to their voice or broadband nodes located in BT exchanges to provide telephone and internet services. WLA markets remain the biggest SMP markets by assets under the WFTMR¹⁴ for the 2021-2026 period. The WLA markets are split by geography and by the nature of competition and Ofcom has determined that BT has SMP in both Area 2 and Area 3¹⁵.

Wholesale copper products consist of two variants:

- Metallic Path Facilities (MPF) provides CPs with a copper connection between the exchange and the premises.
- Shared MPF (SMPF) is used by CPs to provide broadband over a copper line alongside a voice service on the same line (provided using Wholesale Line Rental, WLR) which may or may not be provided by the same CP.

Wholesale fibre products, or Generic Ethernet Access (GEA), consist of two main variants:



¹³ “As of December 2024, more than 140 providers had already deployed network using access to Openreach’s physical infrastructure (or had placed orders to do so). These providers had ordered 185,000 km of duct, and over 111,000 km had already been used. They had ordered approximately 1.3m attachments to poles, of which 830,000 attachments had already been used.”, Telecom Access Review Consultation : Volume 1 (ofcom.org.uk), page 12.

¹⁴ See Ofcom’s 2021 statement “Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-26” (WFTMR).

¹⁵ See Ofcom’s “Summary of the geographic markets we have identified”, Wholesale Fixed Telecoms Market Review 2021-26; Volume 2, pg.117; 7.7

- FTTC uses fibre from the exchange to the street cabinet, then copper for the final link to the premises. FTTC is also used to provide Single Order GEA (SoGEA) products.
- FTTP uses fibre all the way from the exchange to the premises.

Adjusted Returns

	Revenue	Cost	Return	MCE	ROCE	Revenue	Cost	Return	MCE	ROCE	Ofcom
	£m	£m	£m	£m	%	£m	£m	£m	£m	%	WACC %
WLA Markets	FY25					FY24 Restated					7.0% / 7.8%
	3,756	3,334	422	9,016	4.7%	3,411	3,386	25	7,827	0.3%	

During the year, adjusted ROCE for the WLA market increased, due to price rises and increased demand for higher speed services offset by increased network investment.

- Revenues increased by £345m as a result of increased volumes in FTTP and SoGEA rental services and index linked price rises, offset by volume decreases in FTTC and MPF services.
- Adjusted cost decreased by £52m primarily driven by cost transformation that has reduced net labour costs and holding gain revaluations on copper assets. These cost reductions were partially offset by increased usage of Physical Infrastructure duct and fibre depreciation as a result of the FTTP roll out.
- MCE increased by £1,189m driven by growth in fibre asset base reflecting the ongoing investment in the fibre build programme.

Adjusted return and ROCE in the WLA market are split between FTTP and Legacy (Copper/FTTC) products as follows:

Product	Return	MCE	ROCE	Return	MCE	ROCE
	£m	£m	%	£m	£m	%
FTTP	FY25			FY24 Restated		
	(148)	5,671	(2.6)%	(534)	4,368	(12.2)%
Legacy	570	3,345	17.0%	559	3,459	16.2%
WLA Total	422	9,016	4.7%	25	7,827	0.3%

In the WFTMR 2021, Ofcom had anticipated higher returns for legacy services in the short term to support fibre build by Openreach and its competitors. The ROCE in legacy products has marginally increased as MCE allocations move towards FTTP due to volume decline and legacy assets come to the end of their useful lives.

The FTTP ROCE has improved driven by volume shifts towards fibre services, consistent with the FTTP life cycle expectation. As product take-up continues to grow, the in-year returns will become positive and, in the longer term, will contribute to the ROCE exceeding WACC for in-year reporting. The future higher returns in the latter point of the FTTP life cycle will recover the cumulative negative returns to date as a result of the high initial deployment costs of the fibre investment programme.

4.3 Business Connectivity

The Business Connectivity markets are subdivided into the Leased Lines Access (LLA) market and the Interexchange Connectivity (IEC) Markets. Most business connectivity services are subject to charge control on a basket of products, across LLA and IEC, where annual price increases are capped at CPI.

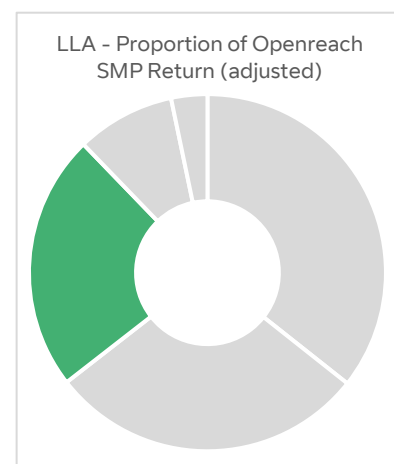
4.3.1 Leased Lines Access

Products

LLA markets include the provision of leased lines access services which provide connections from BT exchanges to end-user business sites. The LLA markets are split by geography and the nature of competition with Ofcom determining that BT has SMP in Area 2, Area 3 and the High Network Reach (HNR) Areas¹⁶.

The LLA markets contain Ethernet and Optical technology-based products and dark fibre services. The services include the following:

- Ethernet Access Direct (EAD) offers competitive point to point connectivity to UK businesses and infrastructure markets.
- Ethernet Backhaul Direct (EBD) is shared infrastructure offering highly efficient and cost-effective way of backhauling large volumes of data, quickly and securely.
- Optical Spectrum Services (OSS) provides a highly secure, flexible and cost-effective way of moving very large amounts of data between UK-wide locations via dedicated fibre links which use Dense Wavelength Division Multiplexing (DWDM) technology.
- Dark Fibre (DF) services offer access to optical fibres for data transmission where the telecoms providers can choose their own electronic equipment.



¹⁶ See Ofcom's "Summary of the geographic markets we have identified", Wholesale Fixed Telecoms Market Review 2021-26; Volume 2, pg.117; 7.8-7.9

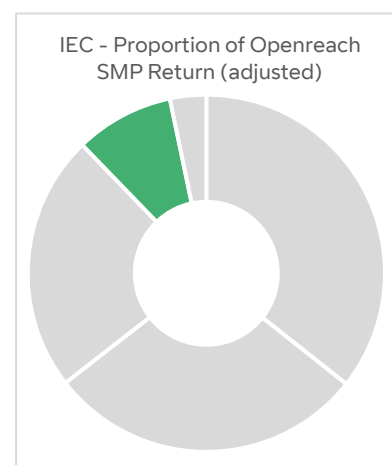
4.3.2 Interexchange Connectivity

Products

IEC markets include the provision of dedicated circuits used for interexchange services that provide backhaul connections between BT exchanges in different geographic areas. The IEC markets are split by geography and the nature of competition with Ofcom determining that BT has SMP in IEC - BT only exchanges and BT+1 exchanges¹⁷.

The IEC markets contain Ethernet technology-based products and dark fibre services. The services include those described in the previous section:

- Ethernet Access Direct (EAD).
- Ethernet Backhaul Direct (EBD).
- Optical Spectrum Services (OSS).
- Dark Fibre (DF).



Future changes to cost attribution methodology

As part of the normal course of business we regularly review the underpinning allocations of costs in the RFS to ensure appropriate costs and returns are reported in the RFS. Such a review identified a potential issue with the attribution of backhaul fibre costs¹⁸. The current methodology attributes the majority of costs to FTTP and FTTC in the WLA market on the assumption that backhaul routes from legacy copper exchanges to enduring fibre headend exchanges are routed on this network. Our investigations have established that very few of these routes are carried on our backhaul fibre network and the majority are routed on the access spine fibres.

Any new methodology used in the Regulatory Financial Statements is subject to rigorous due diligence procedures both internally and in discussions with Ofcom. We were unable to complete this process in time for the Change Control Notification for the FY25 RFS, but we are intending to make the change in FY26.

This change is expected to increase the cost and MCE allocations to main link and EBD services, particularly those reported within the Interexchange Connectivity market, reducing the reported ROCEs.

Adjusted Returns for Business Connectivity

	Revenue £m	Cost £m	Return £m	MCE £m	ROCE %	Revenue £m	Cost £m	Return £m	MCE £m	ROCE %	Ofcom WACC %
	FY25					FY24 Restated					7.80%
LLA Markets	937	596	341	1,740		891	639	252	1,713		
IEC Markets	207	76	131	138		197	75	122	145		
Business Connectivity	1,144	672	472	1,878	25.1%	1,088	714	374	1,858	20.1%	

¹⁷ See Ofcom's "BT has SMP at BT Only and BT+1 exchanges, but not at BT+2 exchanges", Wholesale Fixed Telecoms Market Review 2021-26; Volume 2, pg.217-218; 8.307-8.315

¹⁸ CO484 (Interexchange Fibre), Accounting Methodology Document 2024; pg.200-201

The return in Business Connectivity increased by 5.0%, primarily driven by index linked price increases and operational cost savings.

Revenue increased by £56m due to CPI price increases and as demand shifts toward higher bandwidth speed Ethernet products. Adjusted cost decreased by £42m as ongoing cost transformation reduced pay related costs and MCE increased by £20m due to growth in the Fibre and Electronics asset bases.

ROCE remains above the Ofcom WACC of 7.8%. Product prices have increased in line with inflation reflecting the WFTMR price controls in which Ofcom directed that prices could be kept flat in real terms to encourage competition and investment.

4.4 Shared Ancillaries

Products

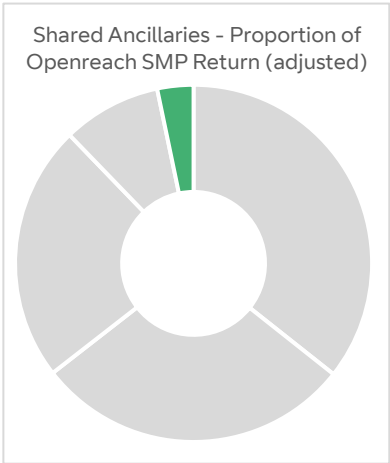
Ancillary means an associated facility or service which supports the provision of access to the electronic communications network. Shared ancillaries include Cablelink, Accommodation and Electricity charges.

Adjusted Returns

	Revenue	Cost	Return	Revenue	Cost	Return
	£m	£m	£m	£m	£m	£m
Shared Ancillaries	FY25			FY24 Restated		
	150	102	48	147	107	40

Shared Ancillaries return has improved as a result of an increase in revenue in new orders for Accommodation services, offset by a reduction in Electricity revenue.

Services within this market do not typically have significant MCE balances owing to their nature and therefore ROCE is not a useful metric. The market continues to make small returns in line with expectations.



5. Reconciliation of the RFS to BT Group Annual Report

The RFS are prepared as directed by Ofcom using specific methodologies aligned to regulatory decisions. This results in different accounting treatments used in the Annual Report and the RFS. We continue our dialogue with Ofcom about the intention to improve transparency of the RFS and more closely align it to the accounting standards adopted for the Annual Report.

For FY25, the adjusted operating profit reported in the Annual Report is reconciled to the return reported in the RFS as below:

	Notes	Openreach £m	BT Group plc £m
Adjusted operating profit as per Annual Report		1,997	3,276
Specific Items	1	(197)	(784)
		1,800	2,492
Other trading differences	2	59	-
Net short term interest		4	(112)
Share of post-tax loss of associated and joint ventures		-	(8)
Installation costs treated as operating expenses	3	(111)	(110)
CCA adjustments	4	41	41
Rounding		-	1
Return as in the RFS		1,793	2,304

The key differences are:

- The income statement and segmental analysis in the Annual Report separately identifies trading results before specific items.** Specific items are those that in management's judgement need to be disclosed by virtue of their size, nature or incidence. These are included in returns reported in the RFS.
- We allocate a share of costs where services are provided to, or shared by, Openreach from or with other parts of BT.** The RFS uses the methodologies directed by Ofcom and these differ from those adopted in the Annual Report.
- Ofcom directs that certain costs are treated as operating expenditure rather than capital expenditure in the RFS (relative to BT's accounting policies).** These include GEA Customer Site installation, Tie Cables, GEA Cable Links, Abortive Visits, Co-mingling services, Excess Construction Charges and Expedite services, which are treated as operating expenditure in the RFS but are capitalised in the Annual Report.
- The RFS are prepared on a Current Cost Accounting (CCA) basis.** This differs from the Historical Cost Accounting (HCA) basis used in the Annual Report.



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