

Research Update:

BT Group 'BBB/A-2' Ratings Affirmed On Solid Prospects To Reduce Leverage

October 1, 2026

Rating Action Overview

- We expect declining capital expenditure (capex; after a peak in fiscal 2026) and continued cost optimization to support a gradual decline in BT Group PLC's leverage toward 2.7x in fiscal 2028.
- BT has demonstrated strong resilience in recent quarters and we anticipate this will likely continue in the next couple of years, thanks to solid brand perception and increased availability of full fiber across its market.
- Nevertheless, the group continues to operate in the highly competitive U.K. telecom market and we expect it to experience further significant line losses to alternative fiber networks (altnets) and continued revenue decline owing to lower copper voice volumes, with revenue not returning to growth before fiscal 2029 (year ending March 31).
- We affirmed our ratings, including our 'BBB/A-2' long-term and short-term issuer credit ratings, on BT.
- The stable outlook reflects our expectation that the group's revenue will likely continue to decline over the next couple of fiscal years.

Primary Contact

Osnat Jaeger
London
44-20-7176-7066
osnat.jaeger
@spglobal.com

Additional Contact

Alexandra Balod
London
44-20-7176-3891
alexandra.balod
@spglobal.com

Rating Action Rationale

The affirmation reflects our expectation that BT will face revenue stagnation over the next two fiscal years, which will likely constrain significant near-term EBITDA growth. We forecast a 1% like-for-like revenue decline (excluding International) in fiscal 2027 before approaching break-even in fiscal 2028. This is due to projected average revenue per unit (ARPU) growth being more than offset by persistent line losses and the ongoing contraction of legacy copper voice revenue. However, continued improvements in free operating cash flow (FOCF) and increasing visibility regarding a return to revenue growth could position the group for a positive rating action in the next couple of years.

BT is on track to reduce leverage to below 2.7x by fiscal 2029. This reflects gradual debt reduction along with growth in EBITDA from continued cost optimization. The group has updated and extended its transformation program and now expects to achieve total cost savings of £3.7 billion by 2030. As a result, we expect cost savings to more than offset revenue decline in the

next two fiscal years. In addition, the decline in adjusted debt to EBITDA will be somewhat supported by reduced lease liabilities and a potentially lower pension deficit as BT continues to pay about £790million per year toward the pension scheme. We think there is a greater potential to reduce debt through EBITDA growth from fiscal 2029, after the group switches off its public switched telephone network (PSTN) network in January 2027 and when we think it could transition to limited, though positive, revenue growth.

We forecast free cash flow improvement as investments in fiber to the premises (FTTP)

gradually subside. We anticipate capex will scale down to about £4 billion in fiscal 2028 from a peak of £5.2 billion in fiscal 2026. This is predominantly due to a decline in spending on full fiber upgrade because BT's full fiber network has passed more than 23 million premises by June 30, 2026--more than 75% of its target of 30 million premises by 2030. While we expect lower capex will be somewhat offset by a significant uptick in the tax payment, we expect a gradual improvement in adjusted free cash flow from £1.2 billion in fiscal 2026 to about £1.67 billion in fiscal 2027 and £2 billion in fiscal 2028. This equals adjusted FOCF before spectrum and pension deficit payments of £2.5 billion in fiscal 2027 and £2.8 billion in 2028, leading to FOCF to debt of 11.6% and about 13.0%, respectively. We forecast reported discretionary cash flow after lease payment of £20 million-£50 million in fiscal 2027 increasing to more than £350 million in fiscal 2028, contributing to a gradual decline in net debt.

Market and structural stresses should continue to lead to organic revenue decline during the

next two fiscal years. BT faces tough competition in the broadband market from altnets, alongside continued aggressive competition on the value end of the mobile market from second brands and mobile virtual network operators. We don't expect the group to return to organic revenue growth until fiscal 2029. While FTTP deployment is gaining traction among higher-value customers, BT remains vulnerable to churn owing to altnets. These competitors, operating under a less stringent regulatory framework, can undercut Openreach's wholesale pricing through aggressive discounting. Furthermore, altnets are increasingly leveraging underused capacity via hyper-competitive retail promotions, necessitating higher retention spending from BT. The group reported 825,000 line losses in fiscal 2026 and anticipates a further 800,000 for fiscal 2027. In addition, while not an immediate risk, wholesale competition could intensify should nexfibre and Virgin Media O2 (VMO2) launch a joint wholesale proposition covering a significant portion of the U.K. market, or if VMO2 adopts a more aggressive broadband strategy to stabilize its subscriber base.

Despite these risks, BT has demonstrated resilient performance, and we expect it to transition to revenue growth after fiscal 2028.

We think the group benefits from a robust brand reputation built through sustained investment in network infrastructure and service quality, which has underpinned relatively stable operating performance despite a challenging operating environment. In fiscal 2026, BT's revenue (excluding International) contracted only 1.9%, while the group maintained a broadly stable consumer subscriber base and revenue within a highly competitive landscape.

We identify several structural tailwinds that could support a gradual transition toward revenue and EBITDA growth by fiscal 2029:

- FTTP upsell momentum: Continued migration to FTTP provides a dual benefit--higher ARPU via pricing premiums at both the wholesale and retail levels, and improved margins from lower network maintenance costs and higher network reliability.
- The PSTN migration's completion: The scheduled PSTN shutdown in January 2027 will mandate a full transition to digital services. This will effectively eliminate the £150 million -

£200 million drag from declining copper voice revenue, with the final impact on comparative figures expected in fiscal 2028.

- Regulatory-driven price increases: The industrywide shift toward fixed, contractual annual price increases (typically £3–£4 per month) provides a predictable revenue lever to offset competitive promotional pressures.
- Altnet consolidation: As altnets face mounting pressure from high debt loads, low penetration, and market saturation, we expect a wave of consolidation or exits. A more concentrated altnet landscape could reduce the hyper-competitive promotional cycles that altnets have been using to attract new customers.

We expect the international joint venture with Verizon to be broadly accretive to BT's long-term operating prospects and profitability. This strategic pivot removes a low-margin business unit from the group's consolidated perimeter, leading to a significant structural uplift in margins. Consequently, we forecast BT's adjusted EBITDA margin to expand to approximately 45% in fiscal 2027 from 39.7% in fiscal 2026. BT's international division operates in a highly competitive global landscape against incumbents such as Deutsche Telekom, Orange, Vodafone, AT&T, and Verizon. Given that these international operations offer limited synergies with BT's core U.K. connectivity business, we think they acted as a drag on both top-line revenue growth and free cash flow without materially enhancing the group's core competitive positioning. The JV structure allows BT to participate in the segment's potential upside while insulating the group from its inherent volatility and margin compression.

Outlook

The stable outlook reflects our expectation that BT's revenue will continue to decline over the next couple of fiscal years. At the same time, we expect cost optimization and lower capex will help reduce BT's adjusted debt to EBITDA toward 2.7x (assuming no significant volatility in the pension deficit) and FOCF (before spectrum payments and contributions to reduce the pension deficit) to increase to more than 12%.

Downside scenario

We could lower the rating if BT's operating performance is materially weaker than we expect, such that:

- Its adjusted debt to EBITDA increased to materially and sustainably above 3.2x; and
- FOCF (before spectrum payments and contributions to reduce the pension deficit) to debt declines below 8% on a prolonged basis.

Upside scenario

We could raise the rating if BT:

- Transitions to sustainable organic revenue growth;
- Reduces its adjusted leverage to 2.7x or below; and
- Increases adjusted FOCF (before spectrum payments and pension deficit contributions) to debt to more than 12%.

Company Description

BT Group 'BBB/A-2' Ratings Affirmed On Solid Prospects To Reduce Leverage

BT is the incumbent telecom services company in the U.K. In fiscal 2026, it generated revenue of £19.6 billion and S&P Global Ratings-adjusted EBITDA of £7.8 billion. The group operates across three main business segments:

- Consumer (under the BT and EE brands, 41% of group revenue in fiscal 2026)): Providing retail customers with fixed telephony, broadband, mobile, and TV retail services;
- Business (32% of revenue; including International): Providing networking, connectivity, and advanced security services to companies, governments and public-sector organizations, and small and midsize enterprises in the U.K.; and
- Openreach (27%): BT's wholly owned fixed-infrastructure subsidiary, providing wholesale telecom services and infrastructure access to other U.K.-based carriers.

Our Base-Case Scenario

Key metrics

BT Group PLC--Forecast summary

Period ending	Mar-31-2023	Mar-31-2024	Mar-31-2025	Mar-31-2026	Mar-31-2027	Mar-31-2028	Mar-31-2029
(Mil. GBP)	2023a	2024a	2025a	2026a	2027e*	2028f*	2029f*
Revenue	20,669	20,835	20,358	19,654	17,362	17,347	17,520
Gross profit	14,203	14,404	14,215	13,629	12,179	12,205	12,394
EBITDA (reported)	7,437	7,612	7,705	7,861	7,832	7,862	8,007
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--
Plus/(less): Other	59	(70)	(77)	(51)	(52)	(52)	(52)
EBITDA	7,496	7,542	7,628	7,810	7,780	7,810	7,955
Less: Cash interest paid	(709)	(814)	(893)	(951)	(983)	(969)	(949)
Less: Cash taxes paid	136	(59)	35	(58)	(85)	(173)	(366)
Plus/(less): Other	--	--	--	--	--	--	--
Funds from operations (FFO)	6,923	6,669	6,770	6,801	6,712	6,668	6,640
EBIT	2,816	2,981	2,673	2,901	3,390	3,425	3,540
Interest expense	907	1,080	1,179	1,097	1,200	1,186	1,166
Cash flow from operations (CFO)	5,878	5,131	5,560	6,196	5,886	5,814	5,718
Capital expenditure (capex)	5,120	4,801	4,759	4,995	4,216	3,772	3,584
Free operating cash flow (FOCF)	758	330	801	1,201	1,671	2,042	2,134
Dividends	751	810	852	884	909	933	959
Share repurchases (reported)	138	133	79	126	--	--	--
Discretionary cash flow (DCF)	(131)	(613)	(129)	191	762	1,109	1,175
Debt (reported)	18,521	18,526	18,762	18,536	18,429	18,055	17,738
Plus: Lease liabilities debt	5,359	4,955	4,571	4,184	3,807	3,427	3,050
Plus: Pension and other postretirement debt	2,469	3,844	3,206	3,136	3,136	3,136	3,136
Less: Accessible cash and liquid investments	(3,761)	(2,669)	(2,794)	(1,701)	(1,950)	(1,950)	(2,072)
Plus/(less): Other	(1,582)	(1,657)	(1,001)	(1,519)	(1,519)	(1,519)	(1,519)
Debt	21,006	22,999	22,744	22,636	21,904	21,148	20,333
Equity	15,142	13,488	13,975	13,839	14,749	15,672	16,670

BT Group 'BBB/A-2' Ratings Affirmed On Solid Prospects To Reduce Leverage

BT Group PLC--Forecast summary

FOCF (adjusted for lease capex)	387	(161)	291	813	1,315	1,689	1,775
Interest expense (reported)	886	1,006	1,037	963	1,066	1,052	1,032
Capex (reported)	5,307	4,969	4,937	5,169	4,390	3,946	3,758
Cash and short-term investments (reported)	3,940	2,780	2,847	2,123	2,000	2,000	2,122
Adjusted ratios							
Debt/EBITDA (x)	2.8	3.0	3.0	2.9	2.8	2.7	2.6
FFO/debt (%)	33.0	29.0	29.8	30.0	30.6	31.5	32.7
FFO cash interest coverage (x)	10.8	9.2	8.6	8.2	7.8	7.9	8.0
EBITDA interest coverage (x)	8.3	7.0	6.5	7.1	6.5	6.6	6.8
CFO/debt (%)	28.0	22.3	24.4	27.4	26.9	27.5	28.1
FOCF/debt (%)	3.6	1.4	3.5	5.3	7.6	9.7	10.5
FOCF before spectrum and pension deficit payments/debt (%)			7.4	9	11.6	13.2	14.2
DCF/debt (%)	(0.6)	(2.7)	(0.6)	0.8	3.5	5.2	5.8
Lease capex-adjusted FOCF/debt (%)	1.8	(0.7)	1.3	3.6	6.0	8.0	8.7
Annual revenue growth (%)	(0.8)	0.8	(2.3)	(3.5)	(11.7)	(0.1)	1.0
Gross margin (%)	68.7	69.1	69.8	69.3	70.1	70.4	70.7
EBITDA margin (%)	36.3	36.2	37.5	39.7	44.8	45.0	45.4
Return on capital (%)	8.0	8.2	7.3	7.9	9.3	9.3	9.6
Return on total assets (%)	5.5	5.7	5.2	5.7	6.7	6.7	6.8
EBITDA/cash interest (x)	10.6	9.3	8.5	8.2	7.9	8.1	8.4
EBIT interest coverage (x)	3.1	2.8	2.3	2.6	2.8	2.9	3.0
Debt/debt and equity (%)	58.1	63.0	61.9	62.1	59.8	57.4	54.9
Debt fixed-charge coverage (x)	8.3	7.0	6.5	7.1	4.8	5.0	6.8
Debt/debt and undepreciated equity (%)	58.1	63.0	61.9	62.1	59.8	57.4	54.9

All figures are adjusted by S&P Global Ratings, unless stated as reported. *Data for 2027, 2028, 2029 excludes BT International. a--Actual. e--Estimate. f--Forecast. GBP--pound sterling.

Liquidity

We assess BT's liquidity as adequate. We estimate that the group's available liquidity sources will exceed its liquidity uses by more than 1.3x over the 12 months from March 31, 2026. The assessment is constrained by our view that BT might be unable to absorb high-impact, low-probability events without refinancing. There are no financial covenants in the capital structure.

Principal liquidity sources	Principal liquidity uses
- Cash and liquid investments of about £1.7 billion as of March 31, 2026; - Undrawn committed revolving credit facility of £2.1 billion; and - Our forecast of cash funds from operations of about £5.3 billion.	- Short-term debt maturities of about £423 million; - Working capital outflow of up to £300 million, including seasonal outflows; - Capex of about £4.3 billion, including spectrum costs; - Dividends and share repurchases of about £800 million; and

BT Group 'BBB/A-2' Ratings Affirmed On Solid Prospects To Reduce Leverage

- Pension funding of £789 million.

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB/Stable/A-2
Local currency issuer credit rating	BBB/Stable/A-2
Business risk	Satisfactory
Country risk	Low risk
Industry risk	Intermediate risk
Competitive position	Satisfactory
Financial risk	Intermediate
Cash flow/leverage	Intermediate
Anchor	bbb

Modifiers

Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb

Related Criteria

- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Oct. 13, 2025
- [Criteria | Corporates | General: Sector-Specific Corporate Methodology - July 07, 2025](#), July 7, 2025
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [General Criteria: Methodology For Linking Long-Term And Short-Term Ratings](#), April 7, 2017
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013

- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Ratings List

Ratings List		
Ratings Affirmed		
BT Group PLC		
British Telecommunications Ltd.		
BT Finance plc		
EE Ltd.		
Issuer Credit Rating		BBB/Stable/A-2
British Telecommunications Ltd.		
Junior Subordinated		BB+
Commercial Paper		A-2
British Telecommunications Ltd.		
BT Finance plc		
Senior Unsecured		BBB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2026 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Some of the Content may have been created with the assistance of an artificial intelligence (AI) tool. Published Content created or processed using AI is composed, reviewed, edited, and approved by S&P personnel.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.