



Results for the full year to 31 March 2023

BT Group plc

18 May 2023

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

“We have delivered our outlook for FY23: this year we’ve grown both pro forma revenue and EBITDA for the first time in six years while navigating an extraordinary macro-economic backdrop. Over the last four years we have stuck firmly to our strategy and it’s working.

“Openreach is competing strongly and it’s clear that customers love full fibre. The Openreach Board has reaffirmed its target to reach 25 million premises with FTTP by the end of 2026 and plans to further accelerate take-up on the network. In Consumer we’re delivering for customers with strong growth in FTTP and 5G, and we’re also seeing green shoots in B2B with a return to revenue growth in the final quarter in Global and the creation of our newly integrated Business unit.

“By continuing to build and connect like fury, digitise the way we work and simplify our structure, by the end of the 2020s BT Group will rely on a much smaller workforce and a significantly reduced cost base. New BT Group will be a leaner business with a brighter future.”

Continued strong delivery against strategy

- We delivered revenue and adjusted¹ EBITDA in line with our outlook for FY23, despite significant headwinds; normalised free cash flow was delivered at the lower end of our guidance range due to increased cash capital expenditure, primarily in Openreach
- FTTP build of 702k premises passed in the quarter at an average build rate of 54k per week, with 41% of our 25m build completed; FTTP footprint of 10.3m, up 43%, with a further 6m where initial build is underway
- Customer demand in Openreach for FTTP extremely strong with FY23 orders up 70% year on year; take up rate grew to 30.4% with record net adds of 395k in the quarter; base now c.3.1m
- Record quarter of Consumer FTTP connections up 50% year-on-year with the base now over 1.7m
- We have 8.6m 5G connections, up 62% on last year; our 5G network now covers 68% of the population
- Cost transformation on track with gross annualised cost savings of £2.1bn since April 2020 against our £3bn target, with a cost to achieve of £1.1bn against a target of £1.6bn
- Created Business through the merger of Enterprise and Global to enhance value for all B2B customers, strengthen our competitive position and deliver material synergies
- The UK Government announced a three-year 100% tax expensing benefit on qualifying UK capex, effective from 1 April 2023; this will allow Openreach to deliver increased connections and offset inflation whilst reconfirming our 25m FTTP target by the end of 2026
- New metrics announced to track our transformation into a next-generation connectivity provider (see page 4), focussed on our networks, our customers and becoming a more efficient organisation
- Total labour resource² to reduce from 130k to 75-90k by FY28-FY30

Pro forma full year revenue and adjusted¹ EBITDA growth:

- Revenue £20.7bn, down 1% with the growth in Openreach more than offset by decline in the other units
- Adjusted¹ EBITDA £7.9bn, up 5% due to growth in Openreach and Consumer offset by a decline in Enterprise
- Revenue up 1% and adjusted¹ EBITDA up 3% on a Sports Joint Venture ('JV') pro forma¹ basis
- Reported profit before tax £1.7bn, down 12% due to increased depreciation from network build and specific items, partially offset by adjusted¹ EBITDA growth
- Reported capital expenditure ('capex') £5.1bn, down 4%; capex excluding Spectrum up 5% due to higher fixed network investment primarily in Openreach for building, and connecting more customers to, FTTP; cash capex was c.£0.2bn higher at £5.3bn (up 10%) as we reduced our capital creditors; significantly lower capex in Q4 given unwind of Openreach work in progress ('WIP')
- Net cash inflow from operating activities £6.7bn; normalised free cash flow¹ £1.3bn, down 5% due to increased cash capex and adverse working capital movements offset by EBITDA growth and a tax refund; increase in Q4 due to timing of working capital, lower cash capex, and increased EBITDA
- Net debt £18.9bn, up £850m primarily due to pension scheme contribution of £1bn
- Gross IAS 19 deficit of £3.1bn, up from £1.1bn at 31 March 2022 mainly due to the impact of higher real gilt yields partly offset by deficit contributions
- Final dividend of 5.39 pence per share (pps) bringing the full year dividend to 7.70pps, flat year on year
- FY24 Outlook: revenue and EBITDA growth on a pro forma basis; capital expenditure excluding spectrum of £5.0bn-£5.1bn; normalised free cash flow of £1.0bn-£1.2bn

¹ See Glossary on page 3

² Total labour resource includes both employees directly employed by BT and non-employees supplied by a third party

Full year to 31 March	2023	2022	Change
Reported measures	£m	£m	%
Revenue	20,681	20,850	(1)
Profit before tax	1,729	1,963	(12)
Profit after tax	1,905	1,274	50
Basic earnings per share	19.4p	12.9p	50
Net cash inflow from operating activities	6,724	5,910	14
Full year dividend	7.7p	7.7p	—
Capital expenditure	5,056	5,286	(4)
Adjusted measures			
Adjusted ¹ Revenue	20,669	20,845	(1)
Adjusted ¹ EBITDA	7,928	7,577	5
Pro forma Revenue	20,431	20,306	1
Pro forma EBITDA	7,999	7,782	3
Adjusted ¹ basic earnings per share	22.0p	20.3p	8
Normalised free cash flow ¹	1,328	1,392	(5)
Capital expenditure excluding spectrum	5,056	4,807	5
Net debt ^{1,2}	18,859	18,009	£850m

Customer-facing unit updates

	Adjusted ¹ revenue			Adjusted ¹ EBITDA			Normalised free cash flow ¹		
Full year to 31 March	2023	2022	Change	2023	2022	Change	2023	2022	Change
	£m	£m	%	£m	£m	%	£m	£m	%
Consumer	9,737	9,858	(1)	2,623	2,262	16	1,147	917	25
Enterprise	4,962	5,157	(4)	1,394	1,636	(15)	522	791	(34)
Global	3,328	3,362	(1)	458	456	—	63	131	(52)
Openreach	5,675	5,441	4	3,449	3,179	8	211	448	(53)
Other	27	27	—	4	44	(91)	(615)	(895)	31
Intra-group items	(3,060)	(3,000)	(2)	—	—	—	—	—	—
Total	20,669	20,845	(1)	7,928	7,577	5	1,328	1,392	(5)
Fourth quarter to 31 March	2023	2022	Change	2023	2022	Change	2023	2022	Change
	£m	£m	%	£m	£m	%	£m	£m	%
Consumer	2,306	2,416	(5)	659	557	18			
Enterprise	1,270	1,290	(2)	384	384	—			
Global	854	837	2	147	135	9			
Openreach	1,420	1,373	3	879	811	8			
Other	3	7	(57)	(21)	(18)	(17)			
Intra-group items	(764)	(755)	(1)	—	—	—			
Total	5,089	5,168	(2)	2,048	1,869	10	1,222	513	138

Performance against FY23 outlook

	FY23 performance	FY23 outlook
Change in adjusted ¹ pro forma ¹ revenue	Up 1%	Growth on a Sports JV pro forma ¹ basis
Adjusted ¹ EBITDA	£7.9bn	At least £7.9bn
Capital expenditure ¹	£5.1bn	c.£5.0bn
Normalised free cash flow ¹	£1.3bn	Lower end of the £1.3bn-£1.5bn range

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 their cash tax benefit), payments relating to spectrum, and specific items. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends paid, share buybacks, acquisitions and disposals, repayment and raising of debt, cash flows relating to loans with joint ventures, and cash flows relating to the Building Digital UK demand deposit account which have already been accounted for within normalised free cash flow. For non-tax related items the adjustments are made on a pre-tax basis.
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. Amounts due to joint ventures held within loans and borrowings are also excluded.
Service revenue	Earned from services delivered using our fixed and mobile network connectivity, including but not limited to, broadband, calls, line rental, TV, residential BT Sport subscriptions, mobile data connectivity, incoming & outgoing mobile calls and roaming by customers of overseas networks.
Sports JV pro forma	On 1 September 2022 BT Group and Warner Bros. Discovery announced completion of their transaction to form a 50:50 joint venture (JV) combining the assets of BT Sport and Eurosport UK. Financial information stated as pro forma is unaudited and is presented to estimate the impact on the group as if trading in relation to BT Sport had been equity accounted for in previous periods, akin to the JV being in place historically. Please refer to Additional Information on page 36 for a bridge between financial information on a reported basis and a Sports JV pro forma basis.
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 to changes to our assessment of our provision for historic regulatory matters, restructuring charges, divestment-related items and net interest expense on pensions.

We assess the performance of the group using a variety of alternative performance measures. Reconciliations from the most directly comparable IFRS measures are in Additional Information on pages [36](#) to [38](#).

Overview of the full year to 31 March 2023

Key transformation metrics

By the end of the decade, BT Group will be transformed, connecting for good and leading nationwide next-generation networks with best in class customer service and solutions.

In FY28-FY30, BT Group's transformation will be reflected in:

- Reduction in total labour resource from 130k to between 75-90k
- Increase in Openreach FTTP premises passed from 10.3m to between 25-30m
- Increase in Openreach FTTP take-up from 30% to between 40-55%
- Increase in retail FTTP take-up from 1.8m to between 6.5-8.5m
- Increase in 5G UK population coverage from 68.1% to >98%, and 5G connections from 8.6m to between 13.0m-14.5m
- Increase in Group NPS from 22.1 to between 30-35

Financial outlook

- We expect to be a significant beneficiary of the UK Government's full expensing scheme from FY24-FY26 and expect to pay no UK cash tax for the next three years. With demand for FTTP well ahead of our expectations, we will reinvest this benefit into further accelerating our FTTP connections and absorbing inflation whilst remaining committed to our target of building to 25m premises by the end of 2026, bringing our annual capex outlook to £5.0-5.1bn for FY24-FY26 inclusive. We expect take-up to accelerate beyond 30% whilst maintaining our build cost envelope of £250-£350 per premises.
- FY24 Outlook: adjusted¹ revenue and adjusted¹ EBITDA growth on a pro forma basis driven by CPI-linked pricing and the impact of cost transformation; despite expected headwinds from cost-of-living pressure, and cost inflation, including higher energy costs. Normalised free cash flow¹ for FY24 is expected to be between £1.0bn and £1.2bn as the tax benefit from full expensing will be offset by higher capex. Cash capex in FY24 may be up to £200m higher than reported capex of £5.0 to £5.1bn due to the repayment of government grants resulting from higher than expected fibre take-up on the BDUK programmes.
- Beyond FY24, we continue to expect consistent and predictable adjusted¹ revenue and adjusted¹ EBITDA growth driven by CPI-linked pricing and by cost transformation. We remain confident in expanding normalised free cash flow by at least £1.5bn, when compared with FY22, by the end of the decade. This comes from lower capex and lower opex as we move past peak capex and towards an all-fibre, all-IP network.

	FY24 outlook	Beyond FY24
Change in adjusted ¹ revenue	Growth on a Sports JV pro forma ¹ basis	Consistent growth
Adjusted ¹ EBITDA	Growth on a Sports JV pro forma ¹ basis	Consistent growth
Capital expenditure ¹	£5.0bn-£5.1bn	£5.0bn-5.1bn from FY24-FY26; >£1bn reduction post peak fibre build in FY28
Normalised free cash flow ¹	£1.0bn-£1.2bn	At least £1.5bn incremental NCF by end of the decade

Dividend

- We are today declaring a final dividend for FY23 of 5.39 pence per share (pps) (FY22: 5.39pps), bringing the full-year total to 7.70pps (FY22: 7.70pps)
- We reconfirm our progressive dividend policy which is to maintain or grow the dividend each year whilst taking into consideration a number of factors including underlying medium-term earnings expectations and levels of business reinvestment
- The Board expects to continue with this policy for future years, and to declare two dividends per year with the interim dividend being fixed at 30% of the prior year's full year dividend

Principal risks and uncertainties

A summary of the group's principal risks and uncertainties is provided in note 13.

¹ See Glossary on page 3

Group results for the full year to 31 March 2023

Income statement

- Reported revenue was £20,681m, down 1%, driven by the removal of BT Sport revenue, legacy product declines (including copper products in Openreach and CPS products in Enterprise), lower equipment sales in Global and the loss of an MVNO customer, partially offset by indexation and improvement in product mix
 - on a Sports JV pro forma¹ basis reported revenue was up 1%
- Reported operating costs were £18,062m, up 1%, primarily due to increased depreciation and cost inflation partially offset by tight cost control and the removal of BT Sport rights and production costs
- Adjusted¹ EBITDA of £7,928m, up 5%, primarily due to our cost transformation programme and the removal of BT Sport costs, partially offset by cost inflation and reported revenue decline
 - on a Sports JV pro forma¹ basis adjusted¹ EBITDA was up 3%
- Reported profit before tax of £1,729m, down 12%, primarily due to increased depreciation from network build and specific items, partially offset by adjusted¹ EBITDA growth

Specific items (Note 5 to the condensed consolidated financial statements)

- Specific items resulted in a net charge after tax of £253m (FY22: £728m)
- The main components were restructuring charges of £300m (FY22: £347m), net charges associated with the disposal of BT Sport of £155m and subsequent charge of £34m (FY22: £nil) and property impairment charges of £65m (FY22: £nil); offset by tax credit on specific items of £308m (FY22: net tax charge of £340m).
- The net profit on disposal of BT Sport recognised in specific items was £28m, representing the £155m charges and £183m of the tax credit

Tax

- The effective tax rate on reported profit was -10.2% (FY22: 35.1%) primarily driven by the impact of the super deduction and the gain on the disposal of BT Sport being exempt from UK tax. The FY22 rate was higher due to a tax charge on the revaluation of deferred tax liabilities from 19% to the new 25% UK corporation tax rate.
- The effective tax rate on adjusted profit was 5.8% (FY22: 14.8%) as we expect a large proportion of our capital spend on fibre rollout to qualify for the Government's super deduction scheme.
- At the end of FY23, we had c.£8bn of carried forward UK tax losses.
- We received a net income tax refund globally of £136m (FY22: £52m paid) following the agreement of an outstanding issue with HMRC during the prior period
- Our tax expense recognised in the income statement before specific items was £132m (FY22: £349m). We also recognised a £642m tax credit (FY22: £430m tax charge) in the statement of comprehensive income, mainly relating to our pension scheme.
- We expect our sustainable income statement effective tax rate before specific items to be around the UK rate of corporation tax, as we do most of our business in the UK.

Capital expenditure

- Reported capital expenditure was £5,056m, down 4%, mainly driven by the impact of prior-year investment in spectrum offsetting increased fixed network investment; capital expenditure excluding spectrum payments up 5%
- Cash capex was £5,307m, up 10% due primarily to increased fixed network investment and reduction in capital creditors
- Reported capex in Q4 was significantly lower due to the unwind of Openreach work in progress

Net cash inflow from operating activities and normalised free cash flow

- Net cash inflow from operating activities was £6,724m, up 14%
- Normalised free cash flow¹ was £1,328m, down 5% due to increased cash capex and adverse working capital movements offset by EBITDA growth and a tax refund; increase in Q4 due to timing of working capital, lower cash capex, and increased EBITDA
 - a reconciliation of these measures to our free cash flow is shown in Additional Information on page [36](#)
- We previously indicated that all minimum guarantee payments to the BT Sport joint venture would be included in normalised free cash flow; the off-market element of this has now been classified as a financing cash flow so has now been excluded; the benefit to FY23 was £61m; the impact going forwards is limited as the cash distributions from the JV will now also be excluded from normalised free cash flow
- Net cash cost of specific items adjusted from normalised free cash flow¹ was £404m (FY22: £606m), primarily relating to restructuring payments

Net debt and liquidity

- Net financial debt (which excludes lease liabilities) was £13.5bn (31 March 2022: £12.2bn), increasing mainly due to pension scheme contributions; normalised free cash flow was mostly offset by dividend payments and cash specifics
- Net debt¹ (which includes lease liabilities) was £18.9bn (31 March 2022: £18.0bn); the difference to the movement in net financial debt reflects lease movements
- BT Group holds cash and current investment balances of £3.9bn; the current portion of loans and other borrowings is £1.8bn
- Our £2.1bn revolving credit facility, which matures in March 2027, remains undrawn at 31 March 2023

- We remain committed to our credit rating target of BBB+ and minimum rating of BBB
 - During FY23, all of the major agencies confirmed their ratings at BBB or equivalent

Pensions (Note 7 to the condensed consolidated financial statements)

- The IAS 19 deficit has increased from £1.1bn at 31 March 2022 to £3.1bn at 31 March 2023
- The £2.0bn increase in the gross deficit reflects negative asset returns mainly due to higher real gilt yields, partly offset by an increase in the real discount rate reducing liabilities and £1.0bn of deficit contributions paid over the period

Sports JV performance

- For FY23, our Sports joint venture ('JV') with Warner Bros. Discovery recorded a total comprehensive loss for the year of £123m; the JV held net assets of £1,097m as at 31 March 2023
- Further details on the BT Sport transaction including accounting treatment are provided in note 11

¹ See Glossary on page [3](#)

Operating review

Measures discussed in the operating review are on an adjusted basis and unless otherwise stated commentary is on full year results.

Consumer: Continued adjusted¹ EBITDA growth and strong operational performance in a competitive market

	Fourth quarter to 31 March				Full year to 31 March			
	2023 £m	2022 £m	Change £m	%	2023 £m	2022 £m	Change £m	%
Revenue ¹	2,306	2,416	(110)	(5)	9,737	9,858	(121)	(1)
Operating costs ¹	1,647	1,859	(212)	(11)	7,114	7,596	(482)	(6)
EBITDA ¹	659	557	102	18	2,623	2,262	361	16
Depreciation & amortisation					1,397	1,421	(24)	(2)
Operating profit ¹					1,226	841	385	46
Capital expenditure					1,193	1,198	(5)	—
Normalised free cash flow ¹					1,147	917	230	25
Pro forma ³ adjusted revenue	2,306	2,277	29	1	9,499	9,319	180	2
Pro forma ³ adjusted EBITDA	659	607	52	9	2,694	2,467	227	9

- Adjusted¹ revenue was up 2% on a pro forma³ basis, with a 3% growth in service revenue² driven by the 2022 annual contractual price rise which was aided by a higher FTTP base and higher roaming; adjusted¹ revenue was down 1% due to the BT Sport disposal offsetting service revenue² growth
- Adjusted¹ EBITDA was up 9% on pro forma³ basis, due to increased postpaid mobile and broadband service revenue² along with tight cost management, including lower indirect mobile commissions; adjusted¹ EBITDA was up 16% due to rights and production cost savings from the BT Sport disposal along with adjusted¹ revenue growth and tight cost management, including lower indirect mobile commissions
- Normalised free cash flow was up due to adjusted¹ EBITDA growth and favourable device working capital movements, offset by sports rights timing
- Capital expenditure was flat with continued mobile network, equipment and digital investment
- Another record-breaking quarter of FTTP connections with 186k added; the FTTP base is now over 1.7m, increasing by 580k in the year
- The 5G ready base now stands at 9.1m with the continued rollout at pace of EE's 5G network; the 5G network now covers two thirds of the UK population
- Churn continues to remain stable in a competitive market with Ofcom complaints in EE lower than or in line with industry average for mobile, broadband and landline and in BT Ofcom complaints were lower than or in line with industry average for broadband and landline
- RootMetrics again named EE as the UK's best network for nine and a half years in a row
- In February we started to notify relevant customers of contractual price changes, effective from 1 April; 3m customers including customers on social and discounted tariffs are excluded from April 2023 price increases with strong support provided for vulnerable customers from our BT Home Essentials & EE Basics Mobile products

¹ Financials and commentary are based on adjusted measures; see Glossary on page 3

² See Glossary on page 3

³ See Sports JV pro forma definition in the Glossary on page 3

Enterprise: Adjusted¹ revenue and adjusted¹ EBITDA stabilising despite ongoing market challenges

	Fourth quarter to 31 March				Full year to 31 March			
	2023 £m	2022 £m	Change £m	%	2023 £m	2022 £m	Change £m	%
Revenue ¹	1,270	1,290	(20)	(2)	4,962	5,157	(195)	(4)
Operating costs ¹	886	906	(20)	(2)	3,568	3,521	47	1
EBITDA ¹	384	384	—	—	1,394	1,636	(242)	(15)
Depreciation & amortisation					842	724	118	16
Operating profit ¹					552	912	(360)	(39)
Capital expenditure					608	569	39	7
Normalised free cash flow ¹					522	791	(269)	(34)

- Adjusted¹ revenue was down driven by the migration of an MVNO customer, legacy contract exits and declines in legacy products, partially offset by continued growth in SME and SOHO; in the fourth quarter, the adjusted¹ revenue decline narrowed driven by trading in SME and SOHO, demonstrating a progressive trend through the year
- Adjusted¹ EBITDA was down due to the flow through of lower revenue and margin pressure from lower legacy product mix, partly offset by the impact of ongoing cost transformation. In the fourth quarter adjusted¹ EBITDA was flat, with trading in SME and SOHO offset by the annualisation of the MVNO customer loss

- Depreciation and amortisation was up, driven by timing relating to the registration of assets in the course of construction
- Capital expenditure was up, driven by digital investment in support of our modernisation agenda
- Normalised free cash flow was down, reflecting adjusted EBITDA decline partly offset by improved working capital management
- We have seen growth in both mobile and VoIP in the year, adding 61k connections to our mobile base and 110k connections to our VoIP base; for the year, retail order intake increased 14% to £3.0bn despite challenging market conditions
- In Q4, BT entered a 10-year, multi-million-pound partnership with Amazon Web Services (AWS) to bring edge computing to our customers
- BT has secured a contract worth up to £350 million over the next six years to become the sole provider to deliver public sector connectivity across Scotland; the Scottish Wide Area Network (SWAN) contract, which has been awarded by NHS National Services Scotland (NSS) on behalf of the Scottish Government, will accelerate the digital transformation of Scotland's public sector including to some of the most rural areas across the country
- Enterprise NPS and Customer Trust metrics improved through the year

¹ Financials and commentary are based on adjusted measures; see Glossary on page 3

Global: Financial performance continues to stabilise as improved growth portfolio and strong cost transformation offset lower equipment sales and cost inflation

	Fourth quarter to 31 March				Full year to 31 March			
	2023	2022	Change		2023	2022	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue ¹	854	837	17	2	3,328	3,362	(34)	(1)
Operating costs ¹	707	702	5	1	2,870	2,906	(36)	(1)
EBITDA ¹	147	135	12	9	458	456	2	—
Depreciation & amortisation					317	355	(38)	(11)
Operating profit ¹					141	101	40	40
Capital expenditure					252	201	51	25
Normalised free cash flow ¹					63	131	(68)	(52)

- Adjusted¹ revenue decline mainly due to lower equipment sales and the impact of prior year divestments, partly offset by a £131m positive foreign exchange movement; adjusted¹ revenue excluding divestments, one-offs and foreign exchange was down 4%; adjusted revenue growth in Q4 due to favourable foreign exchange movements
- Adjusted¹ EBITDA was flat with lower operating costs from ongoing cost transformation and cost control, offset by lower revenue and inflationary pressures; adjusted¹ EBITDA excluding divestments, one-offs and foreign exchange was flat
- Depreciation and amortisation was down mainly due to actions taken to reduce capital intensity over the last few years, resulting in strong growth in adjusted operating profit, up 40%
- Capital expenditure was up £51m mainly due to customer project spend and investment in digital platforms
- Normalised free cash flow declined mainly due to higher capital expenditure and adverse working capital partially offset by higher EBITDA
- On a rolling 12-month basis order intake was £3.1bn, down 15%; our growth product portfolio represents 53% of total orders won in the year
- During the quarter we signed a contract with Rio Tinto for global network connectivity

¹ Financials and commentary are based on adjusted measures; see Glossary on page 3

Openreach: Adjusted¹ revenue and adjusted¹ EBITDA growth; FTTP build and connections continue to accelerate

	Fourth quarter to 31 March				Full year to 31 March			
	2023	2022	Change		2023	2022	Change	
	£m	£m	£m	%	£m	£m	£m	%
Revenue ¹	1,420	1,373	47	3	5,675	5,441	234	4
Operating costs ¹	541	562	(21)	(4)	2,226	2,262	(36)	(2)
EBITDA ¹	879	811	68	8	3,449	3,179	270	8
Depreciation & amortisation					2,059	1,876	183	10
Operating profit ¹					1,390	1,303	87	7
Capital expenditure					2,796	2,548	248	10
Normalised free cash flow ¹					211	448	(237)	(53)

n/m = not meaningful

- Adjusted¹ revenue growth due to price increases and increased sales of fibre-enabled products and Ethernet, partly offset by legacy copper product declines and an expected decrease in chargeable repairs due to lower repair volumes
- Adjusted¹ EBITDA growth from higher revenue and lower operating costs driven by lower repair volumes and efficiencies partially offset by inflation; Q4 was impacted by the UK cost of living pay rise effective 1st of January 2023

- Depreciation and amortisation grew, driven by increased network build
- Capex up due to higher FTTP build (including WIP), higher FTTP connections and inflation, partly offset by lower non FTTP capex; copper-based capex down 53% in H2; Q4 capex down due to WIP utilisation, partly offset by record connections
- Normalised free cash flow down due to higher capex and working capital timing, partly offset by higher adjusted EBITDA
- Strong FTTP build momentum; 3.1m premises passed in FY23 (up 19% YoY); £250-350 average build cost range maintained; Q4 FTTP build of 702k premises impacted by record Q4 FTTP provisions to meet record demand
- FTTP footprint of 10.3m with a further 6m WIP and 3.1m premises passed in rural locations
- Extremely strong FTTP demand with full year orders up 70% YoY; take up rate grew to 30.4% with record net adds of 394k in the quarter; base now c.3.1m; weekly net adds grew 21.6% to 30.3k compared to Q3 of 24.9k
- Average monthly rental Broadband ARPU grew by c.£1 YoY (7.5%) due to increased volumes of FTTP; broadband base down 68k in Q4
- Achieved 28/30 Ofcom copper Quality of Service measures for FY, with 30/30 achieved in Q4 following ending of Industrial Action; achieved 4/5 Ethernet Quality of Service measures for FY
- Openreach delivered FY performance for on time copper and FTTP provision of 93.2% and repair of 83.4%
- End customer satisfaction remains high with 93% of customers survey responses scoring us between 8 to 10 in Q4

¹ Financials and commentary are based on adjusted measures; see Glossary on page [3](#)

Condensed consolidated financial statements

Group income statement

Full year to 31 March 2023	Note	Before specific items (Adjusted)	Specific items (note 5)	Total (Reported)
		£m	£m	£m
Revenue	2,3	20,669	12	20,681
Operating costs	4	(17,494)	(568)	(18,062)
<i>Of which net impairment losses on trade receivables and contract assets¹</i>		(138)	—	(138)
Operating profit (loss)		3,175	(556)	2,619
Finance expense		(889)	(5)	(894)
Finance income		63	—	63
Net finance expense		(826)	(5)	(831)
Share of post tax profit (loss) of associates and joint ventures		(59)	—	(59)
Profit (loss) before tax		2,290	(561)	1,729
Taxation		(132)	308	176
Profit (loss) for the period		2,158	(253)	1,905
Earnings per share				
- basic		22.0p	(2.6)p	19.4p
- diluted		21.4p	(2.5)p	18.9p

Full year to 31 March 2022	Note	Before specific items (Adjusted)	Specific items (note 5)	Total (Reported)
		£m	£m	£m
Revenue	2,3	20,845	5	20,850
Operating costs	4	(17,673)	(292)	(17,965)
<i>Of which net impairment losses on trade receivables and contract assets¹</i>		(102)	19	(83)
Operating profit (loss)		3,172	(287)	2,885
Finance expense		(833)	(101)	(934)
Finance income		12	—	12
Net finance expense		(821)	(101)	(922)
Share of post tax profit (loss) of associates and joint ventures		—	—	—
Profit (loss) before tax		2,351	(388)	1,963
Taxation		(349)	(340)	(689)
Profit (loss) for the period		2,002	(728)	1,274
Earnings per share				
- basic		20.3p	(7.4)p	12.9p
- diluted		19.7p	(7.2)p	12.5p

¹ Impairment losses have been presented separately in accordance with IAS 1.

Group statement of comprehensive income

	Full year to 31 March	
	2023 £m	2022 £m
Profit for the period	1,905	1,274
Other comprehensive income (loss)		
Items that will not be reclassified to the income statement		
Remeasurements of the net pension obligation	(2,876)	2,865
Tax on pension remeasurements	732	(399)
Items that have been or may be reclassified subsequently to the income statement		
Exchange differences on translation of foreign operations	87	65
Fair value movements on assets at fair value through other comprehensive income	(3)	6
Movements in relation to cash flow hedges:		
– net fair value gains (losses)	1,055	204
– recognised in income and expense	(713)	(54)
Tax on components of other comprehensive income that have been or may be reclassified	(90)	(31)
Share of post tax other comprehensive loss in associates and joint ventures	(1)	—
Other comprehensive income (loss) for the period, net of tax	(1,809)	2,656
Total comprehensive income (loss) for the period	96	3,930

Group balance sheet

	Note	31 March 2023	31 March 2022
		£m	£m
Non-current assets			
Intangible assets		13,687	13,809
Property, plant and equipment		21,667	20,599
Right-of-use assets		3,981	4,429
Derivative financial instruments		1,397	1,003
Investments		29	34
Joint ventures and associates	11	359	5
Trade and other receivables		503	337
Preference shares in joint ventures	11	542	—
Contract assets		369	361
Retirement benefit surplus		52	—
Deferred tax assets		709	289
		43,295	40,866
Current assets			
Programme rights		—	310
Inventories		349	300
Trade and other receivables		3,060	2,624
Preference shares in joint ventures		13	—
Contract assets		1,565	1,554
Assets classified as held for sale		21	80
Current tax receivable		427	496
Derivative financial instruments		82	88
Investments		3,548	2,679
Cash and cash equivalents		392	777
		9,457	8,908
Current liabilities			
Loans and other borrowings		1,772	873
Derivative financial instruments		86	51
Trade and other payables		6,564	6,142
Contract liabilities		859	833
Lease liabilities		800	795
Liabilities held for sale		4	40
Current tax liabilities		78	90
Provisions		229	222
		10,392	9,046
Total assets less current liabilities		42,360	40,728
Non-current liabilities			
Loans and other borrowings		16,749	15,312
Derivative financial instruments		297	819
Contract liabilities		193	170
Lease liabilities		4,559	4,965
Retirement benefit obligations		3,139	1,143
Other payables		920	624
Deferred tax liabilities		1,620	1,960
Provisions		369	439
		27,846	25,432
Equity			
Share capital		499	499
Share premium		1,051	1,051
Own shares		(422)	(274)
Merger reserve		998	998
Other reserves		957	619
Retained earnings		11,431	12,403
Total equity		14,514	15,296
		42,360	40,728

Group statement of changes in equity

	Share Capital ¹	Share Premium ²	Own Shares	Merger Reserve ³	Other Reserves	Retained earnings	Total Equity
	£m	£m	£m	£m	£m	£m	£m
At 31 March 2022	499	1,051	(274)	998	619	12,403	15,296
Adoption of amendments to IAS 37	—	—	—	—	—	(12)	(12)
At 1 April 2022	499	1,051	(274)	998	619	12,391	15,284
Profit for the period	—	—	—	—	—	1,905	1,905
Other comprehensive income (loss) before tax	—	—	—	—	1,141	(2,879)	(1,738)
Tax on other comprehensive (loss) income	—	—	—	—	(90)	732	642
Transferred to the income statement	—	—	—	—	(713)	—	(713)
Total comprehensive income (loss) for the period	—	—	—	—	338	(242)	96
Dividends to shareholders	—	—	—	—	—	(753)	(753)
Share-based payments	—	—	—	—	—	80	80
Tax on share-based payments	—	—	—	—	—	(9)	(9)
Net buyback of own shares	—	—	(148)	—	—	(34)	(182)
Other movements	—	—	—	—	—	(2)	(2)
At 31 March 2023	499	1,051	(422)	998	957	11,431	14,514
At 1 April 2021	499	1,051	(143)	998	436	8,838	11,679
Profit for the period	—	—	—	—	—	1,274	1,274
Other comprehensive income (loss) before tax	—	—	—	—	275	2,865	3,140
Tax on other comprehensive (loss) income	—	—	—	—	(31)	(399)	(430)
Transferred to the income statement	—	—	—	—	(54)	—	(54)
Total comprehensive income (loss) for the period	—	—	—	—	190	3,740	3,930
Dividends to shareholders	—	—	—	—	—	(227)	(227)
Unclaimed dividend over 10 years	—	—	—	—	—	2	2
Share-based payments	—	—	—	—	—	108	108
Tax on share-based payments	—	—	—	—	—	11	11
Net buyback of own shares	—	—	(131)	—	—	(65)	(196)
Transfer to realised profit	—	—	—	—	(7)	7	—
Other movements ⁴	—	—	—	—	—	(11)	(11)
At 31 March 2022	499	1,051	(274)	998	619	12,403	15,296

1 The allotted, called up, and fully paid ordinary share capital of BT Group plc at 31 March 2023 was £499m comprising 9,968,127,681 ordinary shares of 5p each (FY22: £499m comprising 9,968,127,681 ordinary shares of 5p each).

2 The share premium account, comprising the premium on allotment of shares, is not available for distribution.

3 The merger reserve balance at 1 April 2020 includes £998m related to the group reorganisation that occurred in November 2001 and represented the difference between the nominal value of shares in the new parent company, BT Group plc, and the aggregate of the share capital, share premium account and capital redemption reserve of the prior parent company, British Telecommunications plc. In addition, on 29 January 2016, the company issued 1,594,900,429 ordinary shares of 5p at 470.7p per share. These shares were used as part consideration for the acquisition of EE. As a result of this transaction the merger reserve was credited with £7,424m net of £3m issue costs. In FY21, following settlement of intercompany loans by qualifying consideration of £1,574m, equivalent balances were transferred from merger reserve to realised profit.

4 In June 2021, BT exercised an option to purchase the minority shareholding in a subsidiary (BT Communications South Africa). The obligation to purchase the subsidiary's equity instruments is accounted for as a financial liability with a corresponding debit to equity. Non-controlling interests are not material to the group so are not accounted for separately.

Group cash flow statement

	Full year to 31 March	
	2023	2022
	£m	£m
Cash flow from operating activities		
Profit before taxation	1,729	1,963
Share of post tax (profit) loss of associates and joint ventures	59	—
Net finance expense	831	922
Operating profit	2,619	2,885
Other non-cash charges	89	76
Loss (profit) on disposal of businesses	157	(37)
Loss (profit) on disposal of property, plant and equipment and intangible assets	2	—
Depreciation and amortisation, including impairment charges	4,818	4,405
(Increase) decrease in inventories	(47)	(3)
Decrease (increase) in programme rights	7	(17)
(Increase) decrease in trade and other receivables	(285)	(53)
(Increase) decrease in contract assets	(17)	(51)
Increase (decrease) in trade and other payables	232	99
Increase (decrease) in contract liabilities	41	(93)
(Decrease) increase in other liabilities ¹	(919)	(1,169)
(Decrease) increase in provisions	(109)	(80)
Cash generated from operations	6,588	5,962
Income taxes refunded (paid)	136	(52)
Net cash inflow from operating activities	6,724	5,910
Cash flow from investing activities		
Interest received	41	6
Dividends received from joint ventures, associates and investments	9	1
Acquisition of subsidiaries	—	76
Proceeds on disposal of subsidiaries, associates and joint ventures	29	—
Proceeds on disposal of current financial assets ²	11,868	13,402
Purchases of current financial assets ²	(12,705)	(12,432)
Net (purchase) disposal of non-current asset investments	(5)	(8)
Proceeds on disposal of property, plant and equipment and intangible assets	—	2
Purchases of property, plant and equipment and intangible assets ³	(5,307)	(4,607)
(Increase) decrease in amounts owed by joint ventures	(265)	—
Settlement of minimum guarantee liability with sports joint venture	(61)	—
Net cash outflow from investing activities	(6,396)	(3,560)
Cash flow from financing activities		
Equity dividends paid	(751)	(228)
Interest paid	(709)	(755)
Repayment of borrowings ⁴	(513)	(1,374)
Proceeds from bank loans and bonds	2,203	744
Payment of lease liabilities	(727)	(659)
Cash flows from collateral received	(17)	(29)
Changes in ownership interests in subsidiaries	—	(86)
Proceeds from issue of own shares	5	13
Repurchase of ordinary share capital	(138)	(184)
Increase (decrease) in amounts owed to joint ventures	11	—
Net cash outflow from financing activities	(636)	(2,558)
Net decrease in cash and cash equivalents	(308)	(208)
Opening cash and cash equivalents ⁵	692	896
Net decrease in cash and cash equivalents	(308)	(208)
Effect of exchange rate changes	(3)	4
Closing cash and cash equivalents⁵	381	692

¹ Includes pension deficit payments of £994m for the full year to 31 March 2023 (FY22: £1,121m).

² Primarily consists of investment in and redemption of amounts held in liquidity funds.

³ Consists of additions to property, plant and equipment, engineering stores and software of £5,056m (FY22: £4,807m) and movements in capital accruals of £251m (FY22: £23m) less net refund in respect of spectrum acquisition of £nil (FY22: £223m).

⁴ Repayment of borrowings includes the impact of hedging.

⁵ Net of bank overdrafts of £11m (FY22: £85m).

Notes to the condensed consolidated financial statements

1. Basis of preparation and accounting policies

These condensed consolidated financial statements (the "financial statements") comprise the financial results of BT Group plc for the years to 31 March 2023 and 2022 together with the balance sheet at 31 March 2023 and 2022. Results for the year to 31 March 2023 have been extracted from the 31 March 2023 audited consolidated financial statements which have been approved by the Board of Directors. These have not yet been delivered to the Registrar of Companies but are expected to be published on 8 June 2023.

The directors are satisfied that the group has adequate resources to continue in operation for a period of at least twelve months from the date of approval of this report, notwithstanding the net current liabilities position of £0.9bn at 31 March 2023 (£0.1bn net current liabilities at 31 March 2022). Consequently, the directors consider it appropriate to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements for the full year to 31 March 2023. When reaching this conclusion, the directors took into account:

- The group's overall financial position (including trading during the year and ability to repay term debt as it matures without recourse to refinancing); and
- Exposure to principal risks (including severe but plausible downsides).

At 31 March 2023, the group had cash and cash equivalents of £0.4bn and current asset investments of £3.5bn. The group also had access to committed borrowing facilities of £2.1bn. These facilities were undrawn at period-end and are not subject to renewal until March 2027.

The financial statements have been prepared in accordance with the accounting policies as set out in the financial statements for the year to 31 March 2023 and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

The financial information set out above does not constitute the company's statutory accounts for the years to 31 March 2023 and 2022 but is derived from those accounts. A reference to a year expressed as FY23 is to the financial year ended 31 March 2023. The auditor has reported on those accounts; their report (i) was unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for the year to 31 March 2023 or 31 March 2022. Statutory accounts for the year to 31 March 2022 were approved by the Board of Directors on 11 May 2022, published on 1 June 2022 and have been delivered to the Registrar of Companies.

New and amended accounting standards effective during the year

The following amended standards were effective during the year:

Amendments to IAS 37 for onerous contracts

The group adopted Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37) from 1 April 2022. This resulted in a change in accounting policy for performing an onerous contracts assessment. Previously, only incremental costs to fulfil a contract were included when determining whether that contract was onerous. The revised policy is to include both incremental costs and an allocation of other costs directly attributable to the fulfilment of a contract.

The amendments apply prospectively to contracts existing at the date when the amendments are first applied. We analysed contracts existing at 1 April 2022 and identified the cumulative effect of applying the revised policy to be a £12m increase in the onerous contract provision. This has been recorded as an opening balance adjustment to retained earnings. Comparative figures have not been restated.

New and amended accounting standards that have been issued but are not yet effective

The following new or amended standards and interpretations are applicable in future periods:

IFRS 17 'Insurance Contracts'

BT adopted IFRS 17 with retrospective application on 1 April 2023. It is therefore effective from FY24 onwards.

The standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. The measurement method for insurance contracts required by IFRS 17 is a probability weighted discounted cash flow model, including a best estimate and an adjustment for non-financial risk calculated for groups of similar contracts.

IFRS 17 primarily impacts insurance entities, however as it applies to individual contracts it is possible that non-insurers could issue contracts that are in scope of the standard such as product breakdown contracts or warranties.

We have assessed the impact of the standard on the group, and concluded that its impact is not material. Contracts in scope of the standard entered into by the group are restricted to intragroup insurance arrangements, and the group does not issue external insurance contracts.

Other

We do not expect any other standards or interpretations that have been issued but are not yet effective to have a significant impact on the group.

IFRS Interpretations Committee agenda decisions

The IFRS Interpretations Committee (IFRIC) periodically issues agenda decisions which explain and clarify how to apply the principles and requirements of IFRS standards. Agenda decisions are authoritative and may require the group to revise accounting policies or practice to align with the interpretations set out in the decision.

We regularly review IFRIC updates and assess the impact of agenda decisions. The following were identified as being potentially significant to the group:

Demand Deposits with Restrictions on Use arising from a Contract with a Third Party

In its agenda decision, the IFRIC concluded that restrictions on the use of demand deposits arising from a contract with a third party do not result in the deposits being declassified as cash and cash equivalents, unless those restrictions change the nature of the deposit in a way such that it would no longer meet the definition of cash in IAS 7. Application of this agenda decision to deposits held by the group identified one bank account with restrictions on use that nonetheless meets the IAS 7 definition of cash. This bank account was subsequently recognised on the group balance sheet and is now reflected in the cash and cash equivalents balance presented throughout the financial statements. An equal and opposite amount was recognised in trade payables.

The balance on this account was £96m at 31 March 2023 and £148m at 31 March 2022. Prior period comparatives have not been restated as the impact is not considered material, having regard to the fact that a corresponding liability is recognised within trade payables and therefore has no bearing on the group's net assets. The impact on the cash flow statement is not considered to be material and recognition of the balance is presented as an increase in trade and other payables. Cash flows relating to the account which have already been accounted for within normalised cash flow (including its initial recognition) will be excluded from this metric.

2. Operating results – by customer-facing unit

	External Revenue	Internal revenue	Group revenue	Adjusted EBITDA ¹	Operating profit
Full year to 31 March 2023	£m	£m	£m	£m	£m
Consumer	9,680	57	9,737	2,623	1,226
Enterprise	4,849	113	4,962	1,394	552
Global	3,328	—	3,328	458	141
Openreach	2,785	2,890	5,675	3,449	1,390
Other	27	—	27	4	(134)
Intra-group items	—	(3,060)	(3,060)	—	—
Total adjusted²	20,669	—	20,669	7,928	3,175
Specific items (note 5)			12		(556)
Total			20,681		2,619
Full year to 31 March 2022					
Consumer	9,775	83	9,858	2,262	841
Enterprise	5,052	105	5,157	1,636	912
Global	3,362	—	3,362	456	101
Openreach	2,629	2,812	5,441	3,179	1,303
Other	27	—	27	44	15
Intra-group items	—	(3,000)	(3,000)	—	—
Total adjusted²	20,845	—	20,845	7,577	3,172
Specific items (note 5)			5		(287)
Total			20,850		2,885

¹ For the reconciliation of adjusted EBITDA, see additional information on page 36.

² See Glossary on page 3.

3. Operating results – disaggregation of external revenue

Full year to 31 March 2023	Consumer	Enterprise	Global	Openreach	Other	Total
	£m	£m	£m	£m	£m	£m
ICT and managed networks	—	1,676	1,676	—	—	3,352
Fixed access subscriptions	4,059	1,625	268	2,716	—	8,668
Mobile subscriptions	3,351	1,074	86	—	—	4,511
Equipment and other services	2,270	474	1,298	69	27	4,138
Total adjusted¹ revenue	9,680	4,849	3,328	2,785	27	20,669
Specific items (note 5)						12
Total revenue						20,681

Full year to 31 March 2022						
ICT and managed networks	—	1,715	1,672	—	—	3,387
Fixed access subscriptions	3,991	1,696	268	2,564	—	8,519
Mobile subscriptions	3,247	1,176	87	—	—	4,510
Equipment and other services	2,537	465	1,335	65	27	4,429
Total adjusted¹ revenue	9,775	5,052	3,362	2,629	27	20,845
Specific items (note 5)						5
Total revenue						20,850

¹ See Glossary on page 3.

4. Operating costs

	Full year to 31 March	
	2023	2022 (re-presented) ¹
	£m	£m
Operating costs by nature		
Staff costs:		
Wages and salaries	3,858	3,746
Social security costs	424	400
Other pension costs	590	591
Share-based payment expense	80	108
Total staff costs	4,952	4,845
Own work capitalised ¹	(1,364)	(1,105)
Net staff costs	3,588	3,740
Net indirect labour costs ^{1,2}	381	470
Net labour costs	3,969	4,210
Product costs	3,368	3,166
Sales commissions	589	628
Payments to telecommunications operators	1,354	1,346
Property and energy costs	1,242	1,028
Network operating and IT costs	913	904
TV programme rights charges ³	354	879
Provision and installation	591	678
Marketing and sales	363	312
Net impairment losses on trade receivables and contract assets ⁴	138	102
Other operating costs	103	256
Other operating income	(243)	(241)
Depreciation and amortisation, including impairment charges	4,753	4,405
Total operating costs before specific items	17,494	17,673
Specific items (note 5)	568	292
Total operating costs	18,062	17,965

¹ FY22 comparatives have been re-presented to reclassify £116m capitalised labour from net indirect labour costs to own work capitalised. This change results from a recent system change and improved analysis which affords better visibility of the nature of capitalised labour costs.

² Net of capitalised indirect labour costs of £824m (FY22: £755m (re-presented, see footnote 1)).

³ TV programme rights charges relate to programme rights assets which were transferred to the sports joint venture in August 2022, see note 6.

⁴ Consists of net impairment losses on trade receivables and contract assets in Consumer of £94m (FY22: £86m), in Enterprise of £30m (FY22: £5m), in Global of £2m (FY22: £7m), in Openreach of £5m (FY22: £3m) and in Other of £1m (FY22: £1m).

5. Specific items

Our income statement and segmental analysis separately identify trading results on an adjusted basis, 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 presentation 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 an additional analysis of our reporting trading results. Specific items may not be comparable to similarly titled measures used by other companies.

In determining whether an event or transaction is specific, management considers quantitative as well as qualitative factors. Examples of charges or credits meeting the above definition and which have been presented as specific items in the current and/or prior years include significant business restructuring programmes such as the current group-wide cost transformation and modernisation programme, acquisitions and disposals of businesses and investments, charges or credits relating to retrospective regulatory matters, property rationalisation programmes, significant out of period contract settlements, net interest on our pension obligation, and the impact of remeasuring deferred tax balances. In the event that items meet the criteria, which are applied consistently from year to year, they are treated as specific items. Any releases to provisions originally booked as a specific item are also classified as specific. Conversely, when a reversal occurs in relation to a prior year item not classified as specific, the reversal is not classified as specific in the current year. In FY20 we included the impacts of Covid-19 on various balance sheet items as at 31 March 2020 as specific. Any releases to this provision have been released through specific items in subsequent periods.

Current and future movements relating to the sports joint venture (Sports JV) with Warner Bros. Discovery (WBD), such as fair value gains or losses on the A and C preference shares or impairment charges on the equity-accounted investment, will be classified as specific as they are deemed to be related to the divestment of BT Sport operations and linked to the overall fair value of the transaction. Refer to note 6 for further detail.

	Full year to 31 March	
	2023 £m	2022 £m
Specific revenue		
Retrospective regulatory matters	(12)	(5)
Specific revenue	(12)	(5)
Specific operating costs		
Restructuring charges	300	347
BT Sport disposal	155	—
Sports JV - subsequent movements	34	—
Retrospective regulatory matters	12	—
Other divestment-related items	2	(36)
Covid-19	—	(19)
Specific operating costs before depreciation and amortisation	503	292
Impairment charges due to property rationalisation	65	—
Specific operating costs	568	292
Specific operating loss	556	287
Finance expense relating to BT Sport disposal	(13)	8
Interest expense on retirement benefit obligation	18	93
Net specific items charge before tax	561	388
Tax credit on specific items above	(308)	(80)
Tax charge on re-measurement of deferred tax	—	420
Net specific items charge after tax	253	728

Retrospective regulatory matters

We recognised net nil impact in relation to historic regulatory matters, with £12m credits recognised in revenue offset by £12m charges recognised within operating costs (FY22: net credit of £5m). These items represent movements in provisions relating to various matters.

Restructuring charges

We have incurred charges of £300m (FY22: £347m) relating to projects associated with our group-wide cost transformation and modernisation programme. Costs primarily relate to leaver costs, consultancy costs, and staff costs associated with colleagues working exclusively on programme activity. The net cash cost of restructuring activity during the year was £326m (FY22: £370m).

The programme was first announced in May 2020 and runs until the end of FY25. In response to cost inflation, during the year we revised the gross annualised savings target to £3.0bn (previously £2.5bn), with a cost to achieve of £1.6bn (previously £1.3bn). Since embarking on the programme we have achieved gross annualised savings of £2.1bn and incurred costs of £1.1bn.

BT Sport disposal

During FY23 we completed the disposal of BT Sport operations. We recognised a profit on disposal of £28m in specific items, made up of £155m charges recognised within operating costs net of £183m tax credit. We also recognised a £13m credit within finance costs as specific (FY22: £8m charge), relating to a foreign exchange hedging arrangement with the Sports JV. Further details on the BT Sport disposal can be found in note 6.

Sports JV subsequent movements

Subsequent to the disposal, we have recorded a net fair value movement of £34m on the A and C preference shares in the Sports JV (see note 6).

Other divestment-related items

We recognised a £2m charge (FY22: £36m credit) relating to ongoing divestment projects.

Covid-19

In FY20 we recognised one-off charges of £95m relating to the impact of Covid-19 on various balance sheet items. Any releases of this provision have also been booked as a specific item. At 31 March 2023 these provisions had been fully released or utilised.

Impairment charges due to property rationalisation

During FY23, we recognised a £65m impairment charge as specific (FY22: £nil), in relation to an ongoing property rationalisation programme.

Interest expense on retirement benefit obligation

During the year we incurred £18m (FY22: £93m) of interest costs in relation to our defined benefit pension obligations.

Tax on specific items

A tax credit of £308m (FY22: £80m) was recognised in relation to specific items. Of this, £183m relates to the BT Sport disposal. Further details can be found in note 6.

Remeasurement of deferred tax balances

In FY22 we remeasured our deferred tax balances following the enactment of the new UK corporation tax rate of 25% from April 2023. The corresponding adjustment comprised a net tax charge of £420m in the income statement and a non-recurring tax credit of £298m in the statement of comprehensive income. This was classified as a specific item due to its size and the out of period nature of this charge.

6. BT Sport disposal

In August 2022 the group formed a sports joint venture (Sports JV) with Warner Bros. Discovery (WBD) combining BT Sport and WBD's Eurosport UK business. As part of the transaction, the group's wholly owned subsidiary, British Telecommunications plc (BT plc or BT) and WBD has each contributed, sub-licensed or delivered the benefit of their respective sports rights and distribution businesses for the UK & Ireland to the Sports JV. Both parties each hold a 50% interest and equal voting rights in the Sports JV.

BT Sport's distribution agreement with Virgin Media has transferred to the Sports JV, and the Sports JV has also entered into a new agreement with Sky extending beyond 2030 to provide for its distribution of the Sports JV's combined sports content.

The production and operational assets of BT Sport have transferred to WBD who will manage and operate the production of the Sports JV's sport content.

BT plc has entered into a distribution agreement with the Sports JV to procure the sport content required to continue to supply our broadband, TV and mobile customers. BT plc's agreement with the Sports JV will extend beyond 2030 and for the first four years includes a minimum revenue guarantee of approximately £500m per annum, after which the agreement will change to a fully variable arrangement.

At completion of the transaction, BT no longer has control of the BT Sport operations based on the assessment of ownership and joint control over the key decisions of the Sports JV (50/50 with WBD) established through the Sports JV agreement. The group's retained ordinary equity interest in the combined business has been classified as a joint venture under IFRS 11.

WBD will have the option to acquire BT plc's 50% interest in the Sports JV at specified points during the first four years of the Sports JV (Call Option). The price payable under the Call Option will be 50% of the fair market value of the Sports JV to be determined at the time of the exercise, plus any unpaid fixed consideration and remaining earn-out as described below. If the Call Option is not exercised, BT plc will have the ability to exit its shareholding in the Sports JV either through a sale or IPO after the initial four-year period.

The net consideration recognised on completion of the transaction was as follows:

	FY23
	£m
Intangible assets (including goodwill) ¹	88
Property, plant and equipment	13
Right-of-use assets	1
Other assets ²	760
Liabilities ²	(357)
Net assets of operations disposed	505
Net financial liabilities recognised ³	534
Net impact on the consolidated balance sheet	1,039
Profit on disposal, after tax ⁴	28
Net consideration	1,067
Satisfied by	
Proceeds received in the year per the cash flow statement	29
Deferred cash consideration ⁵	70
Investment in A preference shares in Sports JV (note 11)	428
Investment in C preference shares in Sports JV (note 11) ⁶	161
Ordinary equity interest in Sports JV (note 11)	414
Transaction costs	(35)
Net consideration	1,067

¹ Includes allocated goodwill of £83m.

² Other assets includes £632m of capitalised programme rights and £104m prepayments relating to rights payments made for license periods that had not yet started.

Liabilities include £351m relating to outstanding trade payables to broadcast rights holders for the current license period.

³ FY23 balance comprises the fair value of BT's obligation under the minimum revenue commitment of £712m, less deferred tax credit of £178m.

⁴ Profit on disposal has been recognised as a specific item, refer to note 5.

⁵ Deferred cash consideration balance relates to the discounted cash flows due to BT from fixed consideration payable by WBD in instalments over the next three years.

⁶ Expected to be sold to WBD at the end of BT's earn-out entitlement in consideration for any programme rights funded by BT and is therefore akin to deferred consideration for pre-funded programme rights contributed by BT in to the Sports JV at formation.

Significant accounting estimates, judgements and assumptions

The following judgements apply to the BT Sport disposal:

Assessment of whether BT has joint control over the Sports JV

See note 11 for assessment on control.

Valuation of investment in A preference shares (akin to contingent consideration)

BT will receive an earn-out from the Sports JV (subject to liquidity and usual UK company law requirements), which will end at the earliest of:

- four years post completion of the transaction;
- the exercise by WBD of the Call Option; and
- if the earn-out reaches an agreed cap.

The earn-out cash flows to BT are dependent on the cash profit generation of the Sports JV over the earn-out period and is therefore akin to contingent consideration, initially recorded at a fair value of £428m reflecting the present value of expected cash flows. The valuation of the earn-out consideration is supported by a jointly-agreed business plan and internal valuation model.

The key assumptions within the jointly-agreed business plan and internal valuation model are:

- approximately 50% of revenues and 80% of costs during the four years of the jointly-agreed business plan are contractually committed;
- material contracts are renewed at an economic value no less than current terms;
- the total premium sports subscriber base does not materially grow or decline over the earn out period; and
- revenue growth and production costs are driven by contractual terms.

We have also assumed that the earn-out period ends at four years post completion of the transaction however given the mechanics of the deal arrangements if there is an earlier exercise by WBD of their Call Option this would also not materially impact the amounts disclosed in the financial statements.

Subsequent to the initial recognition, the group's carried forward investment in A preference shares will be remeasured to fair value at each reporting date in accordance with IFRS 9, see note 11.

Valuation of the minimum revenue guarantee in BT's distribution agreement with the Sports JV

BT plc's obligation under the minimum revenue guarantee of c.£2bn over the first four years of the Sports JV represents both a trading arrangement on market terms and a financing arrangement for the off-market element of

the revenue guarantee, which has been recorded as a financial liability within trade and other payables on the balance sheet. The liability will be held at amortised cost and will unwind through payments made to the Sports JV over the next 4 years on the minimum revenue guarantee.

The valuation of this financial liability, and what a fair cost-per-subscriber would be, is sensitive to a number of assumptions on volumes and price, and there is a range of outcomes which we could have arrived at. Alternative scenarios considered, based on the different prices and terms used with other market participants, could have resulted in a liability ranging from £543m to £837m, and we initially recognised a financial liability of £712m.

The key assumptions in calculating the financial liability are in estimating what is a market wholesale price at market volume commitment that is supported by the forecast volumes for the related revenue streams. The volumes used are consistent with those included in the jointly-agreed business plan as described above. We note that the bottom of the range disclosed above is based on the price that we will pay after 4 years when the minimum revenue guarantee has ended, however we do not believe that is an appropriate rate from the outset due to existing volume commitments.

Valuation of BT's equity interest in the Sports JV

WBD will have the option to acquire BT plc's 50% interest in the Sports JV at specified points during the first four years of the Sports JV. If the Call Option is not exercised, BT plc will have the ability to exit its shareholding in the JV either through a sale or IPO.

The group has valued its interest in the Sports JV based on the estimated fair value at exit and using the following key assumptions:

- BT expect to realise its interest in the Sports JV through exit rather than ongoing value in use;
- BT expect WBD to exercise its option to acquire BT's 50% interest in the Sports JV at the end of the first four years of the Sports JV; and
- An earnings multiple has been applied to the expected year 5 EBITDA per the jointly-agreed business plan - the multiple is at the lower end of a possible range identified from comparable peers and transactions in the premium sports subscription and broadcasting market.

As the group's interest is recorded on a point in time valuation, based on forecast earnings and current market returns on similar investments, it carries both upside and downside risk from changes in micro and macro-economic factors affecting the sports content subscription market and risk appetite of investors in that market.

We have applied the following sensitivities on these risk factors:

- EBITDA impact from revenue loss due to ongoing cost of living pressures or changes in the Sports JV's rights portfolio;
- An increase or decrease in the valuation multiple achieved; and
- An increase or decrease in the discount rate applied.

None of these sensitivities individually resulted in a material change to the investment value. All downside or upside factors in combination could lead to a £70m decrease or £200m increase in the fair value respectively. However, in our view, combining all downside factors is not a reasonable scenario given the financial and commercial levers available to both the Sports JV and BT to mitigate the impact; and we have taken a prudent approach in not recognising a higher investment value upfront based on possible but uncertain changes in market conditions in the future.

The investment will be subsequently accounted for using the equity method and will be subject to impairment testing at each reporting period, with any impairment losses recognised through specific items, see note 11.

Discounting of cash flows

All cash flows expected to be received or paid over time have been discounted at a rate applicable to the risks associated with the cash flows:

- Deferred payments due to BT from WBD have been discounted at an appropriate post-tax cost of debt (3.3%);
- BT's earn-out from the Sports JV has been discounted at the weighted average cost of capital for the Sports JV at completion date (6.7%); and
- BT's commitments under the minimum guarantee have been discounted at the group's post-tax cost of debt (2.8%).

We do not consider the net present value of the transaction would be materially affected by a reasonable change in the discount rate.

7. Pensions

	31 March 2023	31 March 2022
	£bn	£bn
IAS 19 liabilities – BTPS	(41.6)	(54.3)
Assets – BTPS	38.7	53.5
Other schemes	(0.2)	(0.3)
Total IAS 19 deficit, gross of tax¹	(3.1)	(1.1)
Total IAS 19 deficit, net of tax	(2.5)	(1.0)
Discount rate (nominal)	4.85 %	2.75 %
Future inflation – average increase in RPI (p.a.)	3.35 %	3.70 %
Future inflation – average increase in CPI (p.a.)	2.85 %	3.25 %

¹ Of which £(3.2)bn relates to schemes in deficit (31 March 2022: £(1.1)bn) and £0.1bn relates to schemes in surplus (31 March 2022: £nil).

The IAS 19 deficit has increased from £1.1bn at 31 March 2022 to £3.1bn at 31 March 2023. The £2.0bn increase in the gross deficit mainly reflects negative asset returns due to higher real gilt yields, partly offset by an increase in the real discount rate and £1.0bn of deficit contributions paid over the period. The position also fully allows for 2022 population mortality data when forecasting future life expectancies which has reduced the liabilities by £0.7bn.

8. Share capital

Own shares of £187m (FY22: £210m) were purchased during the year.

9. Dividends

In line with the group's dividend policy, the Board has approved a final dividend for FY23 of 5.39p per share (FY22: 5.39p per share), which will be paid on 13 September 2023, giving a full year FY23 dividend of 7.70p per share (FY22: 7.70p per share). The ex-dividend date is 3 August 2023. An interim dividend of 2.31p per share amounting to £226m was paid on 6 February 2023 (FY22: interim dividend of 2.31p per share amounting to £227m paid).

10. Contingent liabilities and legal proceedings

In the ordinary course of business, we are periodically notified of actual or threatened litigation, and regulatory and compliance matters and investigations. We have disclosed below a number of such matters including any matters where we believe a material adverse impact on the operations or financial condition of the group is possible and the likelihood of a material outflow of resources is more than remote.

Where the outflow of resources is considered probable, and a reasonable estimate can be made of the amount of that obligation, a provision is recognised for these amounts. Where an outflow is not probable but is possible, or a reasonable estimate of the obligation cannot be made, a contingent liability exists.

In respect of each of the claims below, the nature and progression of such proceedings and investigations can make it difficult to predict the impact they will have on the group. There are many reasons why we cannot make these assessments with certainty, including, among others, that they are in early stages, no damages or remedies have been specified, and/or the often slow pace of litigation.

Class action claim

In January 2021, law firm Mishcon de Reya applied to the Competition Appeal Tribunal to bring a proposed class action claim for damages they estimated at £608m (inclusive of compound interest) or £589m (inclusive of simple interest) on behalf of our landline customers alleging anti-competitive behaviour through excessive pricing by BT to customers with certain residential landline services. Ofcom considered this topic more than five years ago. At that time, Ofcom's final statement made no finding of excessive pricing or breach of competition law more generally. The claim seeks to hold against us the fact that we implemented a voluntary commitment to reduce prices for customers that have a BT landline only and not to increase those prices beyond inflation (CPI). At the reporting date we are not aware of any evidence to indicate that a present obligation exists such that any amount should be provided for. In September 2021 the Competition Appeal Tribunal certified the claim to proceed to a substantive trial on an opt-out basis (class members are automatically included in the claim unless they choose to opt-out). We appealed the opt-out nature of that decision and in May 2022 the Court of Appeal determined that the claim should proceed on an opt-out basis. A hearing window has been set for January – April 2024. BT intends to defend itself vigorously.

Italian business

Milan Public Prosecutor prosecutions: In February 2019 the Milan Public Prosecutor served BT Italia S.P.A. (BT Italia) with a notice (which named BT Italia, as well as various individuals) to record the Prosecutor's view that there is a basis for proceeding with its case against BT Italia for certain potential offences, namely the charge of having adopted, from 2011 to 2016, an inadequate management and control organisation model for the purposes of Articles 5 and 25 of Legislative Decree 231/2001. BT Italia disputes this and maintains in a defence brief filed in April 2019 that: (a) BT Italia did not gain any interest or benefit from the conduct in question; and (b) in any event, it had a sufficient organisational, management and audit model that was circumvented/overridden by individuals acting in their own self-interest. However, following a series of committal hearings in Autumn 2020, on 10 November 2020, the Italian court agreed (as is the normal process unless there are limitation or other fundamental issues with the claim) that BT Italia, and all but one of the individuals, should be committed to a full trial. The trial commenced on 26

January 2021 and is ongoing. On 23 April 2021, the Italian court allowed some parties to be joined to the criminal proceedings as civil parties ('parte civile') – a procedural feature of the Italian criminal law system. These claims are directed at certain individual defendants (which include former BT/ BT Italia employees). Those parties have now successfully joined BT Italia as a respondent to their civil claims ('responsabile civile') on the basis that it is vicariously responsible for the individuals' wrongdoing. If successful, the quantum of those claims is not anticipated to be material.

Accounting misstatement claims: a law firm acting on behalf of a group of investors has made claims under s.90A of the Financial Services & Markets Act 2000, alleging that untrue or misleading statements were made in relation to the historical irregular accounting practices in BT's Italian business (which have been the subject of previous disclosures). No value is stated and the matter is in the very early stages. As mentioned in our earlier reports, the accounting issues in Italy have previously been the subject of class actions in the US that were dismissed by the US courts.

Phones 4U

Since 2015 the administrators of Phones 4U Limited have made allegations that EE and other mobile network operators colluded to procure Phones 4U's insolvency. Legal proceedings for an unquantified amount were issued in December 2018 by the administrators. The trial on the question of liability/breach ran from May to July 2022. The parties are now awaiting judgment, and the court has not yet indicated when it will be delivered. A second trial on quantum would be required in the event of a finding for the claimant. We continue to dispute these allegations vigorously.

UK Competition and Markets Authority (CMA) investigation

On 12 July 2022 the CMA opened a competition law investigation into BT and other companies involved in the purchase of freelance services for the production and broadcasting of sports content in the UK. The investigation is focused on BT Sport. In February 2023, the CMA extended its investigation to include suspected breaches of competition law in relation to the employment of staff supporting the production and broadcasting of sports content in the UK. The CMA has said no assumption should be made at this stage that competition law has been infringed. BT is cooperating with the investigation.

11. Joint ventures and associates

	31 March 2023	31 March 2022
	£m	£m
Interest in joint ventures	354	2
Interest in associates	5	3
Closing balance	359	5

The £352m movement in joint ventures relates to the disposal of BT Sport and the creation of a new sports joint venture (Sports JV) with Warner Bros. Discovery (WBD), see below. This is the only material equity-accounted investment held by the group.

Sports JV with Warner Bros. Discovery

In August 2022 we formed the Sports JV with WBD combining BT Sport and WBD's Eurosport UK business. Further details on the BT Sport transaction are provided in note 6.

Significant accounting estimates, judgements and assumptions

Assessment of whether BT has joint control over the Sports JV

The Sports JV is classified as a joint venture and hence has been deconsolidated from the group based on an assessment under IFRS 10 and 11 of the ownership, voting power and joint control established through the joint venture agreement between BT and WBD.

Factors relevant to our assessment:

- Equal voting rights over the activities that most significantly impact the returns of the Sports JV, namely decisions around new or existing sports rights and distribution arrangements.
- Unequal cash distribution during the first four years due to the earn out mechanism and relative size of businesses contributed into the Sports JV.
- Revolving credit facility (RCF) provided by BT to fund short-term liquidity required by the Sports JV for working capital and commitments to sports rights holders.
- WBD's call option to acquire BT's 50% interest in the Sports JV is not exercisable before key decisions over material activities of the Sports JV are made such that joint control still applies at the outset.

The assessment whether joint control remains in place is reviewed at each reporting period.

Accounting policies adopted by the Sports JV

The Sports JV has a financial year-end of 31 July and therefore has not yet prepared its first set of audited financial statements. In order to recognise our share of the Sports JV's results for our equity-accounted investment, we have

prepared the Sports JV's financial information disclosed below based on management accounts for the period ending 31 March 2023 after making certain adjustments to comply with IFRS.

Significant judgements made in preparing the Sports JV's financial information:

- IFRS 3 acquisition accounting should be applied by the Sports JV over the business combination achieved through the transfer of the BT Sport and Eurosport UK businesses from BT and WBD respectively, recognising acquired intangibles on the current and future value of programme rights, and goodwill.
- Revenues from the minimum guarantee in the Sports JV's distribution agreement with BT should be adjusted to reflect a trading agreement on market terms with a separate financing arrangement for the off-market portion accounted for under IFRS 9 – this mirrors the accounting treatment applied by BT (see note 6).
- A and C preference shares issued by the Sports JV to BT should be classified as a financial liability at fair value through profit or loss under IFRS 9.
- Hedge accounting should be applied on the Sports JV's forward contracts with BT with fair value movements on the derivatives recognised in other comprehensive income and held in the cash flow hedge reserve until recycle on settlement of the forward contracts.
- Programme rights should be recognised on the balance sheet from the point at which the licence period begins and are consumed by the Sports JV on a straight line basis over the programming period which is generally 12 months – this is consistent with the group's accounting policy.

Accounting policies in other areas are consistent with those applied by the group.

Ordinary equity shares

On completion of the BT Sport transaction, the group recorded an investment in joint venture at an initial fair value of £414m, relating to our retained ordinary equity interest in the Sports JV entity, in accordance with IFRS 10 and IAS 28. The group has valued this interest in the Sports JV at the estimated fair value at exit, see note 6. Consistent with our accounting policy on associates and joint ventures, we will recognise our share of the change in the Sports JV's net assets under the equity method of accounting.

	FY23
	£m
Group's equity-accounted investment in the Sports JV at formation	414
Share of total comprehensive loss	(62)
Dividends received during the year	—
Carrying amount at the end of the year	352

As required by IAS 36, we have assessed the investment for impairment. There is no impairment at 31 March 2023 as the fair value less costs to sell is higher than the carrying amount of the investment. See below for sensitivities we have applied in determining the fair value less costs to sell.

The following is summarised and unaudited financial information for the Sports JV prepared in accordance with IFRS and including adjustments required to align with the group's accounting policies and provisional fair value adjustments. These results are subject to true-up within the 12 months from Sports JV formation, however any adjustments are not expected to materially impact our share of the Sports JV's results recorded in the period.

Summarised statement of total comprehensive income for the year ended 31 March	2023
	£m
Revenue	557
Loss for the year ¹	(121)
Other comprehensive loss	(2)
Total comprehensive loss	(123)
Summarised balance sheet at 31 March	2023
	£m
Current assets ²	1,106
Non-current assets ³	1,236
Current liabilities ⁴	(702)
Non-current liabilities ⁵	(543)
Net assets	1,097

¹ Includes amortisation of £56m on acquired intangibles based on provisional fair value adjustments, net finance income of £6m, and tax income of £17m (current tax charge of £4m less deferred tax credit of £21m).

² Includes cash and cash equivalents of £11m.

³ Includes goodwill and acquired intangibles of £645m.

⁴ Includes current financial liabilities (excluding trade and other payables and provisions) of £(281)m of which £(268)m relates to the outstanding liability on the RCF provided by BT.

⁵ Includes non-current financial liabilities (excluding trade and other payables and provisions) of £(416)m.

The Sports JV's accounting loss for the year reflects amortisation of acquired intangibles from the BT Sport and Eurosport business transfers, reduced revenues from IFRS 15 adjustments for the off-market minimum guarantee

with BT (see note 6) and underperformance against business plan. Underperformance has been driven by cost of living pressures affecting the premium sports subscription market and impacts from a prolonged winter break in European club football from the World Cup. Underlying trading, before accounting adjustments, is expected to recover in the medium to long-term as wider macroeconomic and inflationary pressures ease and through the Sports JV reducing its cost base to mitigate any future revenue loss.

Preference shares

In addition to BT's ordinary shareholding, BT held the following investments in preference shares in the Sports JV that have not been included within the equity-accounted interest above.

	31 March 2023	31 March 2022
	£m	£m
Investment in A preference shares	429	—
Investment in C preference shares	126	—
Closing balance	555	—

- **A preference shares** - we expect these shares to be redeemed by the Sports JV over the 4-year earn-out period in order to effect the distribution of cash to BT under our earn-out entitlement. The fair value of the shares is driven by the underlying cash profit generation of the Sports JV and therefore have been classified as a fair value through profit or loss (FVTPL) financial asset under IFRS 9. In our view, the cash flows due to BT from the A preference shares are akin to contingent consideration and therefore the fair value of £428m on initial recognition has been included in the consideration within the profit on disposal recognised on the BT Sport transaction (see note 6). Subsequent to the initial recognition, £1m of fair value gain has been recognised through specific items (see note 5) driven by an increase in forecasted cash flows offset by an increase in the discount rate applied to cash flows.
- **C preference shares** - these shares are expected to be sold to WBD at the end of BT's earn-out entitlement in consideration for any sports rights funded by BT at that point and have been recognised as a financial asset held at FVTPL under IFRS 9. In our view, the cash flows due to BT from the C preference shares are akin to deferred consideration and therefore the fair value of £161m on initial recognition has been included in the consideration within the profit on disposal recognised on the BT Sport transaction (see note 6). Subsequent to the initial recognition, £35m of fair value loss has been recognised through specific items (see note 5) driven by an expected reduction in the Sports JV's cost base to mitigate short to medium-term revenue loss, which will reduce the expected payment to BT for pre-funded sports rights.

The preference shares are held at Level 3 on the fair value hierarchy, reflecting a valuation methodology that does not use inputs based on observable market data. See below for sensitivities we have applied in determining the fair value.

Sensitivities

The group's ordinary equity and preference share investments in the Sports JV, carry both upside and downside risk from changes in micro and macro-economic factors affecting the sports content subscription market and risk appetite of investors in that market.

We have applied the following sensitivities to these risk factors:

- EBITDA decline from loss of material sports rights or a significant decline in the Sports JV's revenues from ongoing cost of living pressures;
- EBITDA improvement from outperformance against revised forecasts, particularly with respect to wholesale revenues;
- an increase or decrease in the valuation multiple achieved; and
- an increase or decrease in the discount rate applied.

Sensitivity	Fair value of A and C preference shares in Sports JV	Headroom on impairment test over equity-accounted investment
5% increase or decrease in EBITDA	+/- £32m	+/- £26m
10pp increase or decrease in discount rate	+/- £8m	+/- £15m
10% change in valuation multiple	—	+/- £52m

None of these sensitivities generated an impairment on the group's equity accounted investment in the Sports JV. Headroom on the investment has increased since formation of the Sports JV driven by an expected increase in long term value from the Sports JV reducing its cost base.

12. Related party transactions

Key management personnel comprise executive and non-executive directors and members of the Executive Committee.

Associates and joint ventures related parties include the Sports JV formed in August 2022 (see note 11). Sales of services to the Sports JV during FY23 were £23m and purchases from the Sports JV were £176m. The amount receivable from the Sports JV as at 31 March 2023 was £10m and the amount payable to the Sports JV was £123m.

As part of the BT Sport transaction, the group has committed to providing the Sports JV with a sterling Revolving Credit Facility (RCF), up to a maximum for £300m, for short-term liquidity required by the Sports JV to fund its working capital and commitments to sports rights holders. Amounts drawn down by the Sports JV under the RCF accrue interest at a market reference rate, consistent with the group's external short-term borrowings. The outstanding balance under the RCF of £268m is treated as a loan receivable and held at amortised cost. The capacity of the RCF is expected to reduce to £200m in the medium term. There is also a loan payable to the Sports JV of £11m.

The Sports JV has a foreign exchange hedging arrangement with the group to secure Euros required to meet its commitments to certain sports rights holders; the group has external forward contracts in place to purchase the Euros at an agreed sterling rate in order to mitigate its exposure to exchange risk. The group holds a £14m derivative liability in respect of forward contracts provided to the Sports JV.

Transactions from commercial trading arrangements with associates and joint ventures, including the Sports JV, are shown below:

	31 March 2023	31 March 2022
	£m	£m
Sales of services to associates and joint ventures	29	5
Purchases from associates and joint ventures	216	44
Amounts receivable from associates and joint ventures	10	2
Amounts payable to associates and joint ventures	124	1

Other related party transactions include the purchase of energy from an entity owned by the BT Pension Scheme. Total purchases during the year were £13m (FY22: £12m). £1m was due to the other party as at 31 March 2023 (FY22: £1m). The balance is unsecured and no guarantees have been given.

13. Principal risks and uncertainties

Strong foundations built on our risk mindset aligned with strategy

Our business thrives on stakeholder trust. That means we must manage risks smartly to achieve our ambition, deliver our strategy, support our business model and protect our assets while leading the way to a bright, sustainable future. Our leaders promote a mindset of being smart with risk when making bold choices. Our code sets expected behaviours for all our colleagues. We have ongoing training and formally defined risk management roles that help weave risk awareness into our culture. Risk management aligns with our internal strategic framework, business planning and performance management. This helps integrate risk thinking into key decision-making areas and makes sure we share information in a joined-up way for the biggest impact.

The ongoing risks we face

We divide our risk landscape into 16 Group Risk Categories (GRCs) of enduring risks – like supply management and legal compliance. These will always be important, needing consistent, enduring structures to manage them across the group.

Each GRC has an Executive Committee sponsor. This provides accountability, tone from the top and joined-up risk thinking. GRCs set how we measure and manage our risk exposure. They ensure we do what's needed to achieve and maintain our target risk appetite and level of control. This is facilitated through our risk management framework. For each GRC, we set our risk appetite – how much risk we're willing to take underpinned by metrics with upper and lower boundaries setting our tolerance. We manage these risks through simple and clear policies, underpinned by standards and controls. We use a 'three lines of defence' model to clarify and co-ordinate assurance activities and to give confidence to stakeholders.

This year we focussed on enhancing our internal control arrangements. We simplified all our corporate policies, replacing them with new, much shorter policies aligned to each of the 16 GRCs. Each policy is supported by standards clearly setting out who needs to do what to comply with the policy. Underpinning this, we also designed a group-wide Key Controls Framework. This will help us manage all our enduring risks consistently and efficiently across the business – driving accountability and letting us target assurance activities. Next year, we'll focus on further embedding this Key Control Framework. We'll replace legacy activities and processes and make it the bedrock of assessing and assuring how effectively we're managing enduring risks.

Dynamic risks we face

We're also aware of and act on significant, dynamic risks and uncertainties. There are two types: Point Risks (risks which can't be managed properly through GRC rules, or that are materially significant to us and need to be separately managed); and Emerging Risks (long-term uncertainties which might be materially significant but which we can't currently fully define as a point risk). For these dynamic risks we assign management ownership and identify and execute appropriate actions. We categorise dynamic risks by GRC based on their causes and consequences.

Connecting it all up

Each unit leadership team regularly reviews their exposure across the GRCs and brings together any Point and Emerging Risks to prioritise and act on. Categorising risks by GRC helps us spot broad trends, so we can understand potential impacts and respond in a consistent and coordinated way. Our risk management tool, ARTEMIS, supports this with real-time access to risk and assurance information. This helps us link risk and control data and simplify reporting – so we can spend more time on the right behaviours, conversations and actions. Our Emerging Risk Hubs consider the more ambiguous and cross-group uncertainties we face. They bring together cross-functional representatives to share intelligence, identify potential trade-offs and agree actions.

Strategic

Strategy, technology and competition

Sponsor: Chief Financial Officer

What this category covers

While developing and executing a strategy to grow value for stakeholders, we must manage risks from an uncertain economic context, intensifying competition and rapid changes in customer and technology trends.

Changes could affect our profit, shareholder value and reputation. Similarly, pursuing the wrong strategy, not reflecting strategy in business plans, or not executing against it could make us less competitive and create less long-term sustainable value.

Our appetite for risk in this category

Our risk appetite sets our tolerance for managing 'internal' risks associated with this category which include developing the right strategy, ensuring it is reflected in the business plan and executing against it.

We measure and track this through the performance of specific metrics. We also qualitatively assess how clearly our strategy is defined, the robustness of our strategic analysis and how closely our business and financial plans reflect our strategy.

Doing this means we will make robust strategic choices and execute them to stay competitive and grow value for all our stakeholders.

Examples of what we do to manage this category

- we extensively monitor, research and analyse economic, customer, market, competitor and technology trends
- the Executive Committee and Board discusses key strategic topics throughout the year
- the Executive Committee and Board frequently review performance against our strategic priorities/targets.

Dynamic risk examples in this category

Point risks:

- uncertain economic outlook which may suppress demand, increase customers' price sensitivity and drive up costs
- intensifying competition in the retail broadband and fixed wholesale access markets could increase churn and impact our market share
- slower than expected progress on key programmes could limit our ability to deliver our strategy and growth ambitions.

Emerging risk:

- ecosystem changes in the industry (like private 5G networks) could reduce our revenue and increase customer churn.

Scenario considered in viability analysis/planning

Hyperscalers making direct moves into our markets.

Stakeholder management

Sponsor: Corporate Affairs Director

What this category covers

Trusted stakeholder management is essential to us achieving our ambitions. We listen to and communicate with stakeholders fairly and transparently to build strong, sustainable relationships.

Some sensitive topics need extra focus. These include network plans, customer fairness, net neutrality, using technology responsibly, ESG and industrial relations.

Our appetite for risk in this category

We recognise the importance of strong stakeholder relationships and consider them when setting strategy and making decisions.

At times this creates tensions when weighing up choices: price rises to sustain investment, markets we operate in, who we buy from and sell to, the way we use and develop technology and how we use data.

We want to sustain our sector leadership on reputation and trust among professional opinion formers, and our top quartile position on ESG.

Examples of what we do to manage this category

- we monitor the media, and track our reputation across our main stakeholder groups
- we engage with stakeholders to build stronger relationships
- our Manifesto sets out our commitment to growth through responsible, inclusive and sustainable technology. The Digital, Impact & Sustainability Committee provides Board-level governance
- our cross-organisational Responsible Technology Steering Group and the Geopolitical Risk Hub bring together representatives from across the group to share intelligence and agree actions.

Dynamic risk examples in this category

Point risks:

- the impact of inflation and cost of living on customers which may reduce demand or increase churn
- protecting our customers' interests while migrating to digital products and closing legacy networks.

Emerging risks:

- escalating geopolitical tensions
- climate change and perceptions of our sector's role in carbon emissions.

Scenario considered in viability analysis/planning

Impact of potential changes in Government policy on investment and commercial ambitions.

Financial

Financing

Sponsor: Chief Financial Officer

What this category covers

We rely on cash generated by business performance supplemented by capital markets, credit facilities and cash balances to finance operations, pension scheme, dividends and debt repayments.

We might not be able to fund our business cash flows or meet payment commitments to shareholders, lenders or our pension schemes.

Our appetite for risk in this category

We fund based on business performance forecasts in our medium term plans.

We rely on debt capital markets being open to investment grade borrowers. We set our minimum credit rating at BBB. We invest cash resources to preserve capital, not to generate returns.

We have an agreed plan to reduce investment risk in the BT Pension Scheme by 2034, and plan to reduce real interest rate and longevity risk further.

Examples of what we do to manage this category

- we review actual and forecast business performance
- we have formal treasury risk management processes, Board oversight, delegated approvals and lender relationship management
- we review our pension schemes' funding positions and investment performances and agree funding valuations.

Dynamic risk examples in this category

Point risks:

- increasingly volatile nominal interest rate and inflation forecasts might affect the cost of new debt and pension funding deficits
- macroeconomic and geopolitical events could lower actual and forecast business performance.

Emerging risks:

- changes to pension funding regulations could risk higher pension deficits or shorter recovery periods.

Scenarios considered in viability analysis/planning

An increase to BT's funding obligations to the BT Pension Scheme.

Winter power shortages and unhedged energy costs.

UK and global markets experience a significant recession with negative GDP growth.

Financial control

Sponsor: Chief Financial Officer

What this category covers

We have financial controls in place to prevent fraud (including misappropriation of assets) and to report accurately. If these failed it could result in material financial losses or cause us to misrepresent our financial position.

We might fail to apply the correct accounting principles and treatment. This could result in financial misstatement, fines, legal disputes and reputational damage.

Our appetite for risk in this category

We want our overall financial control framework to be effective so that there is a less than remote likelihood of a material financial misstatement in our reported numbers.

We have defined the proportion of our financial controls that we aim to be preventative rather than detective, and automated rather than manual.

We take a risk-based approach to compliance monitoring through a combination of sample testing and financial data analytics.

Examples of what we do to manage this category

- we maintain financial controls that provide planning and budgetary discipline, efficiency and accuracy while reducing the risk of fraud, leakage or errors
- we continually enhance processes, systems and our operating model to improve and automate accounting, financial reporting and controls
- we've improved tax risk management processes and training.

Dynamic risk examples in this category

Point risks:

- not simplifying and modernising our finance processes and operating model could reduce speed and quality of decision-making and reporting
- impact of complex legacy systems on our internal controls.

Emerging risks:

- higher chance of fraudulent behaviour from increasing cost of living.

Scenario considered in viability analysis/planning

A material financial misstatement which could lead to regulatory fines, lawsuits and reputational damage.

Compliance

Communications regulation

Sponsor: General Counsel, Company Secretary & Director Regulatory Affairs

What this category covers

We work with key regulators as they define clear, predictable and proportionate regulations which protect customers and society while ensuring service providers can compete fairly. We must work in compliance with those regulations, maintain trust and strong relationships while delivering on our vision and sustainable value growth.

Areas of ongoing, industry-wide regulatory scrutiny include billing accuracy, customer complaints, support for vulnerable customers, migration away from legacy services and management of major incidents.

Our appetite for risk in this category

Regulatory compliance is a fundamental part of our goals to be trusted and deliver excellent customer experiences. Specific actions to deliver our regulatory obligations will marry this with our business imperatives and strategy.

Across the board we focus on 'doing the basics' well and maintaining long-term predictability and stability in regulation.

Examples of what we do to manage this category

- we proactively engage with regulators and supply timely and accurate information when required
- we focus on understanding our customers' experiences – like moving them onto new networks or managing vulnerable customers
- we have processes to help us follow regulations, build trust and enable future dialogue with policymakers
- we run a programme of compliance assurance activities.

Dynamic risk examples in this category

Point risks:

- there could be challenges shutting down our legacy networks which might adversely impact service delivery, lead to regulatory intervention and reputational damage
- we could fail to meet our roadmap for Telecommunications (Security) Act 2021 compliance
- there could be negative regulatory sentiment around pricing.

Emerging risks:

- regulation might not keep pace with the changing value chain economics, which could make us less competitive.

Scenario considered in viability analysis/planning

The impact that a more interventionist regulatory approach could have on our commercial strategy.

Data

Sponsor: Chief Digital and Innovation Officer

What this category covers

Our data strategy seeks to create value and enable efficiency while providing a robust framework for data governance and regulatory compliance.

We must follow today's global data regulations while anticipating and preparing for tomorrow's.

Not following data protection laws or regulations could damage our reputation and stakeholder trust, harm colleagues, customers or suppliers and/or lead to litigation, fines and penalties.

Our appetite for risk in this category

We want to ethically protect the group, colleagues, customers, partners and suppliers from breaches of data protection laws and regulations. We also want to harness our data to support and drive our objectives and realise opportunities.

We'll only be able to achieve these aims with the right data ethics, governance, security, protection and compliance systems, processes and practices. Fulfilling our data objectives may require appropriate interpretation of the varied global data protection laws, regulations and standards.

Examples of what we do to manage this category

- we continuously run and improve our data governance programme to tackle existing and future data regulatory risks
- to make sure we follow our own data protection standards we review how we use personal data across the business
- horizon-scanning for evolving regulations, industry sector developments and new technologies impacting our data risks, controls and processes
- we provide data protection and handling training and tools to help colleagues make more risk-aware day-to-day decisions.

Dynamic risk examples in this category

Point risks:

- international data transfers could be restricted or deemed unlawful, which might affect business operations or lead to fines, claims and/or reputational damage.

Emerging risks:

- there could be changes to data protection laws and regulations where we do business
- there could be increased regulatory focus on governance and ethics around data propositions and processes especially with respect to generative Artificial Intelligence.

Scenario considered in viability analysis/planning

A data breach leading to regulatory investigation, enforcement action and reputational damage.

Legal compliance

Sponsor: General Counsel, Company Secretary & Director Regulatory Affairs

What this category covers

We focus on remaining in compliance with all substantive laws. Key areas of focus for this category are anti-bribery and corruption, competition, trade sanctions, export controls and corporate governance obligations.

Our appetite for risk in this category

We want to take advantage of commercial opportunities. So, we take considered, evidenced and defensible decisions around how we comply with applicable laws.

We assess risk to support decisions about proposed actions. This means looking at the nature of the risk, the costs of compliance, the value of the proposed actions and the steps we could take to bring them within our risk appetite.

In corporate governance, we determine the risks for a position we take by considering things like our rules and policies, market practice, investor expectations and our stakeholders' views.

Examples of what we do to manage this category

- through our code we foster a culture where colleagues know expected standards and speak up if something's not right
- we regularly assess risks when giving legal or compliance advice on strategic projects, signing new business and on our commercial operations
- we train colleagues to know where legal and compliance risks come from, how to handle them and when to get expert help
- we do assurance on day-to-day operations, regions, partners, projects and suppliers. We investigate and fix anomalies and share what we learn, where appropriate
- we scan the horizon to prepare and respond to legislative changes.

Dynamic risk examples in this category

Point risks:

- new technologies being exploited in multiple countries
- working with third parties in multiple jurisdictions.

Emerging risks:

- there could be changes to existing or potential new laws, or trade sanctions, put in place in response to geopolitical dynamics or to address concerns in a particular area of law.

Scenario considered in viability analysis/planning

Breaches of sanctions or export controls imposed by UK, US or EU nations potentially leading to regulatory investigation, fines, debarring from public contracts and reputational damage.

Financial services

Sponsor: CEO, Consumer

What this category covers

Our exposure to financial services regulation increased in 2022 when EE launched a Financial Conduct Authority (FCA) regulated mass-market proposition. We expect to continue scaling-up and broadening such products and services over the coming years, which means we must meet all applicable FCA principles, rules and requirements.

Operating outside FCA rules, requirements or permissions could harm customers and lead to fines, loss of FCA permissions, slow service take up and broader reputational damage.

Our appetite for risk in this category

We aim to minimise regulatory risk in two ways. First, by building operational and organisational capabilities that help us develop financial services activities compliantly. Second, by building and maintaining a trusted relationship with the FCA.

We monitor a range of conduct risk metrics, complaints data and customers in collections. These are early warning indicators of customer harm which we can act on.

Examples of what we do to manage this category

- we review and update relevant standards every year, and implement controls into operational procedures
- we run mandatory training on FCA regulations, aligned to job roles
- we review financial services products and promotions when we develop them and each year afterwards
- our 'second line' compliance team provides support and oversight
- we scan the horizon, interpret new regulatory requirements and regularly communicate with the regulator
- our proportionate governance framework provides clear responsibility, accountability and reporting.

Dynamic risk examples in this category

Point risks:

- we might not have enough operational capability and resources to support our financial services strategy
- we could fail to comply with new Consumer Duty regulation, leading to regulatory scrutiny/ challenge and brand damage.

Emerging risk:

- the extra FCA permissions needed to undertake new activities will need us to comply with new regulatory framework areas. We could fail to do that.

Scenario considered in viability analysis/planning

Failing to get full FCA permissions and the impact on product roll out and projected revenue.

Operational

Operational resilience

Sponsor: Chief Security and Networks Officer

What this category covers

We want to deliver best in class performance across our fixed and mobile networks and IT by managing all the risks that could disrupt our services.

Service interruptions could be caused by things like bad weather or accidental or deliberate damage to our assets.

Some service interruptions might depend on suppliers' and partners' reliability – making picking the right ones important.

Our appetite for risk in this category

We want customers to get market leading services, underpinned by best-in-class network performance. To achieve that we must prioritise our resources to maximise overall service and customer experience, whilst aligning with our strategy.

We aim to deliver exceptional performance for high volume (FTTC/4G) and strategic (FTTP/5G) products and maintain reasonable performance for legacy services.

Examples of what we do to manage this category

- we continuously capacity plan, manage asset lifecycles and monitor our network, assets and services
- we respond quickly and professionally to incidents, reducing their impact through geographically dispersed emergency response teams – while communicating with customers
- we have comprehensive testing and change management processes
- we do regular business impact assessments that feed into tested, up to date continuity and disaster recovery plans
- we ensure our operational estate has requisite levels of physical security controls in place to assure service
- our operational planning improves network and IT resilience, including handling more frequent and severe bad weather.

Dynamic risk examples in this category

Point risks:

- increasing flood risk at non-protected sites could lead to flooding, interrupting services
- not creating robust contracts and/or managing relationships with third parties might lead to gaps in support arrangements and extended fix times, creating poor customer experience and churn.

Emerging risk:

- failing to properly manage significant changes to our digital estate could interrupt services and delay fix times.

Scenario considered in viability analysis/planning

Ongoing crisis in the energy sector leads to insufficient gas supply and energy volatility.

Cyber security

Sponsor: Chief Security and Networks Officer

What this category covers

Our aim is to protect the group, colleagues and customers from harm and financial loss from cyber security events.

Because we run critical national infrastructure, a cyber attack could disrupt both customers and the country and compromise data.

A poorly managed cyber security event might cost us money, damage our reputation and impact our market share. The regulator might also impose fines or penalties.

Our appetite for risk in this category

Cyber risk is inherent to our business, and significant reputational damage could be incurred by a major cyber event, but we acknowledge that not all cyber risks can be eradicated.

Cyber events could be deliberate or unintentional, originate from inside or outside the group, and we adapt our security posture and controls accordingly to detect and respond robustly to the evolving threat.

We prioritise the protection of our critical systems and networks, and the data and information they contain.

Examples of what we do to manage this category

- we have leading best practice security standards, tools and processes to protect our applications, systems and networks
- we monitor external threats and gather intelligence on evolving cyber techniques, tactics and capabilities
- to quickly detect, assess and respond to cyber risks we maintain a vigilant security stance
- we run communications, engagement and training
- we continue to invest in cyber defences and security tooling, shifting to automation where appropriate
- we nurture partnerships with industry, government and customers.

Dynamic risk examples in this category

Point risks:

- cyber attacks from nation states could target critical national infrastructure which could lead to service disruption, data loss, regulatory action and damage to our reputation
- exposure to suppliers with security vulnerabilities which might result in compromised supply chains, increased costs, loss of data or interrupted services
- relying on externally hosted cloud services potentially impacting service delivery and customer experience.

Emerging risks :

- AI and machine learning could be weaponised as security threats
- more connected home devices means more focus on protecting customers.

Scenario considered in viability analysis/planning

We fall victim to cyber attacks and experience a major loss of customer data which leads to a successful class action against us.

People

Sponsor: Chief HR Officer

What this category covers

Our people strategy is to enable a culture where all our colleagues can be their best, and help deliver our ambition.

This means we must manage risk around our organisational structure, skills and capabilities, engagement and culture, wellbeing and diversity.

Our appetite for risk in this category

Our priority is making sure colleagues can work and perform at their best. We avoid risks that could compromise critical business priorities and minimise those which cannot be avoided to as low as reasonably practicable. We avoid risks that could result in us not complying with applicable employment legislation.

A relatively small number of roles have a disproportionate effect on our success. For those roles we have a much lower tolerance for the risk of not having the right capabilities, compared to other roles in the organisation.

To deliver our transformation, we're prepared to take carefully managed short-term employee relations risks to achieve our ambitions.

Examples of what we do to manage this category

- our group people strategy is supported by a workforce plan
- we share consistent performance goals and performance management review processes – through clear organisation structures, roles and job descriptions
- we assess skills and capabilities, invest in group-wide workforce and talent planning and provide training, development and wellbeing support – for specific roles, future skills and succession planning
- our D&I strategy raises awareness, addresses bias and promotes our People Networks and support
- we engage with employees and maintain close relationships with formal representative groups and unions
- we offer fair, competitive and sustainable remuneration to promote smart risk taking, support engagement and retention and help align colleagues' and shareholders' interests.

Dynamic risk examples in this category

Point risks:

- large-scale, escalated industrial action could increase disruption, affect colleague engagement and damage our reputation
- changes to our strategy, technology or business model could affect what skills we need. Coupled with tightened talent markets, higher pay and increased attrition, this could create skills gaps.

Emerging risks:

- long-term social and workplace changes
- growing colleague activism on social or environmental topics.

Scenario considered in viability analysis/planning

Widespread lack of availability of frontline colleagues impacting service delivery and leading to poor customer experience and reputational harm.

Health, safety and environment

Sponsor: Chief Security and Networks Officer

What this category covers

We have diverse working environments in various locations, some of which could pose a health or safety risk to colleagues, partners or the public. We must make sure our colleagues and partners are safe and healthy and can perform at their best while managing hazards that could harm them.

Not maintaining or continually improving the right healthy, safety and environmental management systems could impact our provision of a safe and compliant business which protects colleagues.

Ineffective health, safety and environmental standards could lead to legal or financial penalties, and reputational and commercial damage.

Our appetite for risk in this category

It's important that employees and partners follow appropriate standards which support our business priorities. We aim to eliminate all unacceptable risks. We apply proactive risk management to identify, control and mitigate significant risks across the business to a level deemed as low as reasonably practicable.

We consider our legal, regulatory and other requirements the minimum obligation. We want to go beyond that – aiming for zero avoidable harm, optimum physical and mental health and minimal pollution.

Examples of what we do to manage this category

- our group policy is underpinned by standards and a safety framework reflected in our code
- we train colleagues and make sure they're clear on their roles and responsibilities around health, safety and environment
- we monitor health and safety through colleague surveys, focus groups and a dedicated portal
- our incident reporting system monitors and evaluates our health, safety and environmental performance.

Dynamic risk examples in this category

Point risks:

- heightened risks from the extra civil and construction work supporting the full fibre rollout including harm to colleagues, increased regulatory scrutiny, legal claims and reputational damage
- failure to manage contractors properly when they start, and during their contracts potentially leading to harm to colleagues, partners or the public, regulatory intervention and legal claims
- failure to keep our sites clean, tidy and environmentally safe could lead to increased fire risks or compliance breaches.

Emerging risks:

- complying with future health, safety and environment regulation.

Scenario considered in viability analysis/planning

A new pandemic as severe as Covid-19 causes harm to colleagues, disrupted service delivery and business operations.

Major customer contracts

Sponsor: CEO, Business (excluding Openreach, which has separate GRC sponsorship and management)

What this category covers

We offer and deliver a diverse mix of major contracts which contribute to our business performance and growth.

We seek to win and retain major private and public sector contracts in a highly competitive and dynamic environment. We do that, while navigating customer relationships and risk in complex agreements – delivering highly sensitive, critical or essential services globally.

Customer contractual terms can be onerous and challenging to meet which might lead to delays, penalties and disputes. Delivery or service failures against obligations and commitments could damage our brand and reputation, particularly for critical infrastructure contracts or security and data protection services. Not managing contract exits, migrations, renewals and disputes could erode profit margins and affect future customer relationships.

Our appetite for risk in this category

We want a diverse mix of major contracts that will help our business grow. To do that, we must build on our market share, target the right customers, make beneficial commercial and legal agreements and deliver services successfully.

As markets change, we need to proactively adjust our portfolio of services, countries and customers to avoid concentration risk, stagnation and legacy dependency.

We know this involves taking on some higher risk, complex customer agreements with obligations we can't fully meet through standard portfolio, terms and conditions and/or delivery process. We must manage this risk during the bid process and contract lifecycle to minimise the overall impact.

Examples of what we do to manage this category

- we have a clear governance framework to assess new business opportunities, manage bids and monitor in-life contract risks
- as part of bids, we check non-standard unfavourable terms and conditions, mitigating them where we can
- our senior management, and a dedicated team, regularly review our contracts
- we support frontline contract managers with contract and obligation management tools.

Dynamic risk examples in this category

Point risks:

- inflationary pressures affecting our supply chain might not be fully offset by adjusted prices given market challenges or us not having leverage to negotiate
- new IT infrastructure challenges, skills shortages, scale or complexity could stop us delivering our digital portfolio transformation.

Emerging risks:

- increasing geopolitical tensions and East/West divide could affect our multinational customers and our ability to provide global connectivity
- it could be difficult to manage EU contracts if the UK and EU don't renew their data adequacy agreement.

Scenario considered in viability analysis/planning

Losing major public services contracts.

Customers, brand and product

Sponsor: CEO, Consumer (excluding Openreach, which has separate GRC sponsorship and management)

What this category covers

We want to give customers standout service, building personal and enduring relationships and taking extra care of vulnerable customers. We aim to keep customer satisfaction high as we continue to migrate customers from legacy products and services to newer ones – while billing them accurately.

Not digitising or continually improving our customer experience could affect customer satisfaction and retention, colleague pride and advocacy, revenues and brand value.

Central to this is being accurate and competitive with our pricing, billing and collection. We must also manage our product and service lifecycles, inventory and supply chain, and comply with our customer obligations and product and service standards.

Our appetite for risk in this category

We want to be below the industry average for Ofcom complaints and continue to grow our NPS. We aim to maintain customer satisfaction, launch new products and services that benefit them and keep billing issues to a minimum.

We must serve customers through modern and cost-effective platforms – with as few as possible on expensive and labour intensive legacy and aging products and services. We also want customers to feel they get personalised service through friction-free channels.

Examples of what we do to manage this category

- we stick to our promises on the service levels customers should expect and we track a range of customer experience performance metrics
- we have clear and comprehensive brand usage guidelines
- we work with suppliers to manage ongoing relationships and risks
- we pilot products and services to make sure they benefit customers
- we have a colleague retention and skills development plan to make sure we're not short on key skills.

Dynamic risk examples in this category

Point risks:

- switching customers from old to new service platforms could interrupt the service and cause customer churn and/or regulator intervention
- failing to make sure we have the right current and future skill sets to serve our customers could lead to not meeting customer expectations, reputational damage and loss of customers and market share.

Emerging risks:

- long-term changes in customer needs and expectations.

Scenario considered in viability analysis/planning

Wrongly billing customers leading to dissatisfaction, unforeseen churn and possible regulatory investigation.

Supply management

Sponsor: Chief Financial Officer

What this category covers

Successfully selecting, bringing on board and managing suppliers is essential for us to deliver quality products and services.

We have a lot of suppliers. We must make supplier decisions on concentration, capability, resilience, security, costs and broader issues that could impact our business and reputation.

Our appetite for risk in this category

Our appetite guides us when we make purchasing decisions. That includes when we sole or dual source for products or services that support key business aims or activities and where alternative sources are not economically viable. To get the best commercial rates and operational resilience we continuously engage with and challenge key suppliers on pricing and supply chain diversity.

Working with so many third parties needs effective governance to manage them properly. So, we have a low appetite for dealing with suppliers outside our defined policies or processes.

We have to make sure third parties don't expose our brands to damage. That means avoiding – or stopping working with – any that don't meet our standards on things like human rights.

Examples of what we do to manage this category

- our sourcing strategy uses different approaches by category, standard terms and conditions and controls so we can make purchasing decisions efficiently and effectively
- we have comprehensive supplier due diligence, contract management, on-boarding and in-life assessment processes
- we have robust supplier risk management, performance, renewal and termination processes
- we do demand planning and forecasting, stock counts and inventory management so we have supplies available
- we get assurance that the goods and services we buy are made, delivered and disposed of responsibly. That includes monitoring energy use, labour standards and environmental, social and governance impacts.

Dynamic risk examples in this category

Point risks:

- rising energy prices, supply shortages, and inflationary pressures could affect cost reduction targets and future investments
- an escalating Russia-Ukraine war and/or China-Taiwan tensions could compound current supply chain challenges.

Emerging risks:

- long-term metal shortages could lead to much higher prices
- extreme climate conditions might disrupt supply chains.

Scenario considered in viability analysis/planning

Geopolitical uncertainty widens, with wholesale impact on the China supply chain.

Transformation delivery

Sponsor: Chief Financial Officer

What this category covers

We're accelerating transformation delivery to build a simpler, more efficient and dynamic BT Group.

We're modernising and streamlining our IT, simplifying and refining our product portfolio, switching to next-generation strategic networks, unlocking cost efficiencies through better and more agile ways of working, improving our customers' digital journeys, automating our processes and using AI.

Failing to transform could make us less efficient and damage our financial performance and customer experience.

Our appetite for risk in this category

We've defined the level of risk we're willing to tolerate for simplifying and modernising our products, customer journeys and technology. We track specific metrics to check we're achieving genuine, sustainable transformation outcomes and not just cutting costs.

Delivering within our risk appetite will give us competitive advantage, enable faster delivery, improve customer experience and ensure our costs benchmark favourably with peers.

Examples of what we do to manage this category

- we invest in digital and data capabilities to cut costs and grow revenue – prioritising it around making sure we have the right resources to deliver sustainable change effectively
- we have strong governance, with senior leaders clearly owning operational and financial outcomes to be delivered. Each quarter we assess performance to allocate funding – prioritising programmes delivering the most strategic value
- we share robust tracking and reporting (using financial and non-financial measures) with the Executive Committee and Board monthly
- we hold monthly Executive Committee transformation sessions to accelerate delivery by managing dependencies, making informed decisions and removing blocks.

Dynamic risk examples in this category

Point risks:

- managing complex interdependencies to complete migrating customers and close legacy IT and networks
- delivering the volume of change at pace while still focusing on cutting costs.

Emerging risks:

- the changing external environment could affect the size, scale and speed of transformation needed to deliver our strategy.

Scenario considered in viability analysis/planning

The group is unable to execute transformation plans required to deliver savings initiatives.

Additional Information

Notes

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 profit, reported profit before tax, reported net finance expense and reported EPS are the equivalent unadjusted or statutory measures. Reconciliations of reported to adjusted revenue, operating costs, operating profit, profit before tax and EPS are set out in the group income statement. Reconciliations of adjusted earnings before interest, tax, depreciation and amortisation, net debt and free cash flow from the nearest measures prepared in accordance with IFRS are provided in this Additional Information.

Reconciliation of adjusted earnings before interest, tax, depreciation and amortisation

In addition to measuring financial performance of the group and customer-facing units based on adjusted operating profit, we also measure performance based on adjusted EBITDA. Adjusted EBITDA is defined as the group profit or loss before specific items, net finance expense, taxation, depreciation and amortisation and share of post tax profits or losses of associates and joint ventures.

We consider adjusted EBITDA to be a useful measure of our operating performance because it approximates the underlying operating cash flow by eliminating depreciation and amortisation. Adjusted EBITDA is not a direct measure of our liquidity, which is shown by our cash flow statement, and needs to be considered in the context of our financial commitments.

A reconciliation of reported profit for the period, the most directly comparable IFRS measure, to adjusted EBITDA, is set out below.

	Full year to 31 March	
	2023	2022
	£m	£m
Reported profit for the period	1,905	1,274
Tax	(176)	689
Reported profit before tax	1,729	1,963
Net finance expense	831	922
Depreciation and amortisation	4,818	4,405
Specific revenue	(12)	(5)
Specific operating costs before depreciation and amortisation	503	292
Share of post tax losses (profits) of associates and joint ventures	59	—
Adjusted¹ EBITDA	7,928	7,577

¹ See Glossary on page 3.

Normalised free cash flow

Normalised free cash flow is one of the group's key performance indicators by which our financial performance is measured. It is primarily a liquidity measure. However, we also believe it is an important indicator of our overall operational performance as it reflects the cash we generate from operations after capital expenditure and financing costs, both of which are significant ongoing cash outflows associated with investing in our infrastructure and financing our operations.

Normalised free cash flow is defined as 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 their cash tax benefit), payments relating to spectrum, and specific items. It excludes cash flows that are determined at a corporate level independently of ongoing trading operations such as dividends paid, share buybacks, acquisitions and disposals, and repayment and raising of debt, cash flows relating to short-term funding arrangements with joint ventures, and cash flows relating to the Building Digital UK (BDUK) demand deposit account which have already been accounted for within normalised free cash flow. For non-tax related items the adjustments are made on a pre-tax basis.

Normalised free cash flow is not a measure of the funds that are available for distribution to shareholders.

A reconciliation from cash inflow from operating activities, the most directly comparable IFRS measure, to free cash flow and normalised free cash flow, is set out below.

Full year to 31 March		
	2023 £m	2022 £m
Cash generated from operations	6,588	5,962
Tax paid	136	(52)
Net cash inflows from operating activities	6,724	5,910
Net purchase of property, plant and equipment and intangible assets	(5,307)	(4,607)
Free cash flow	1,417	1,303
Interest received	41	6
Interest paid	(709)	(755)
Payment of lease liabilities	(727)	(659)
Dividends received from joint ventures, associates and investments	9	1
Net purchase of non-current asset investments	(5)	(8)
Add back pension deficit payments	994	1,121
Remove cash tax benefit of pension deficit payments	—	—
Add back net cash flow from specific items	404	606
Add back refund in respect of spectrum licence auction	—	(223)
Remove cash flows relating to the BDUK demand deposit account	(96)	—
Normalised free cash flow	1,328	1,392

From FY24 we are updating our normalised free cash flow metric to reflect the ongoing evolution of the business:

- We will include the sale of cash flows of contract assets related to mobile handsets where the performance obligations have been substantially delivered to the customer. This is a financing cash flow in the cash flow statement as certain performance obligations in the contract need to be fulfilled before the right to consideration is unconditional, but we believe that it is appropriate to include these cash flows in our normalised free cash flow metric because the sale of these cash flows is part of our working capital management, as handset costs are incurred up front but recovered throughout the customer contract term. The corresponding operating cash inflow received from customers will be excluded from normalised free cash flow if it has previously been included at the time of the sale of the contract assets.
- We will include monies received as prepayment for the forward sale of future redundant copper. This is a financing cash flow in the cash flow statement as certain benefits of the asset have not yet been transferred to the buyer, but we believe that it is appropriate to include these cash flows in our normalised free cash flow metric because the forward sale of this asset is in line with our operating activities and is similar in nature to cash flows arising from the net purchase of property, plant and equipment which are already included within normalised free cash flow.

Net debt and net financial debt

Net debt consists of loans and other borrowings, 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 to sterling at swap rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed. Amounts due to joint ventures held within loans and borrowings are also excluded.

Net debt is a measure of the group's net indebtedness that provides an indicator of overall balance sheet strength. It is a key indicator used by management to assess both the group's cash position and its indebtedness. The use of the term 'net debt' does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

Net financial debt is net debt excluding lease liabilities. It allows for the comparison to net debt measures reported before the introduction of IFRS 16 on 1 April 2019, and reflects a view that lease liabilities are operational debt in substance, rather than financing transactions.

Net debt and net financial debt are considered to be alternative performance measures as they are not defined in IFRS. A reconciliation from loans and other borrowings, lease liabilities, cash and cash equivalents, and current asset investments, the most directly comparable IFRS measures to net debt and net financial debt, is set out below.

	31 March 2023	31 March 2022
	£m	£m
Loans and other borrowings	18,521	16,185
Lease liabilities	5,359	5,760
Net lease liabilities classified as held for sale	3	2
Less:		
Cash and cash equivalents	(392)	(777)
Current asset investments	(3,548)	(2,679)
	19,943	18,491
Adjustments:		
To re-translate currency denominated balances at swapped rates when hedged ¹	(819)	(234)
To remove fair value adjustments and accrued interest applied to reflect the effective interest method	(254)	(248)
Loans with joint ventures	(11)	—
Net debt	18,859	18,009
Lease liabilities	(5,359)	(5,760)
Lease liabilities classified as held for sale	(3)	(2)
Net financial debt	13,497	12,247

¹ The translation difference between spot rate and hedged rate of loans and borrowings denominated in foreign currency.

Sports JV pro forma basis

On 3 September 2022 BT Group and Warner Bros. Discovery announced completion of their transaction to form a 50:50 joint venture (JV) combining the assets of BT Sport and Eurosport UK. On 18 October 2022 we published unaudited pro forma financial information estimating the impact on the group as if trading in relation to BT Sport had been equity accounted for in previous periods, akin to the JV being in place historically.

Within this results release we reference pro forma information relating to the years ended 31 March 2023 and 2022. The table below provides a bridge between financial information on a reported basis and a Sports JV pro forma basis.

	Reported basis		Sports JV pro forma ¹ adjustment		Sports JV pro forma ¹ basis		
Year ended 31 March	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	Change %
Adjusted¹ revenue							
Consumer	9,737	9,858	(238)	(539)	9,499	9,319	2
BT Group	20,669	20,845	(238)	(539)	20,431	20,306	1
Adjusted¹ EBITDA							
Consumer	2,623	2,262	71	205	2,694	2,467	9
BT Group	7,928	7,577	71	205	7,999	7,782	3

¹ See Glossary on page 3.

About BT Group

BT Group is the UK's leading provider of fixed and mobile telecommunications and related secure digital products, solutions and services. We also provide managed telecommunications, security and network and IT infrastructure services to customers across 180 countries.

BT Group consists of three customer-facing units: Consumer serves individuals and families in the UK; Business* covers companies and public services in the UK and internationally; Openreach is an independently governed, wholly owned subsidiary wholesaling fixed access infrastructure services to its customers - over 650 communication providers across the UK.

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

*Business was formed on 1 January 2023 from the combination of the former Enterprise and Global units. It commenced reporting as a single unit from 1 April 2023, with pro forma reporting information to be produced ahead of BT Group's Q1 FY24 results.

Enquiries

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We will hold the fourth quarter and full year FY23 results call for analysts and investors in London at 10am today and a simultaneous webcast will be available at www.bt.com/results.

We expect to publish the BT Group plc Annual Report 2023 on 8 June 2023. The Annual General Meeting of BT Group plc will be held on 13 July 2023.

We are scheduled to announce the first quarter results for FY24 on 27 July 2023. To reflect the long-term nature of our business these results, and all Q1 and Q3 results going forward, will reflect a simplified reporting format.

Forward-looking statements – caution advised

Certain information included in this announcement 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 the Company'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 announcement are not guarantees of future performance. All forward looking statements in this announcement are based upon information known to the Company on the date of this announcement. 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), the Company 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 announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.