Our lines of business

We have six customer-facing lines of business. In this section we describe each of them, the markets and customers they serve and the products and services they sell. We give examples of what they’ve been doing to broaden and deepen relationships with their customers and we report on their operational and financial performance in the year. Looking ahead, we list their key priorities.

The lines of business are supported by BT TSO, our internal service unit. We describe its role and responsibilities and provide case studies on two important work programmes.

The section starts with an overview of how we’re organised and summarises some changes we’ve made since the year-end.

Supporting our business model
The following icons used in this section provide linkage to our business model on page 28.

**Inputs**
- Financial strength
- Our people
- Networks & physical assets
- Research & development
- Stakeholders & relationships
- Natural resources

**Outputs**
- Skills & expertise
- Products & services
- Innovation
- Waste & emissions

**Outcomes**
- Group performance & KPIs
- Line of business performance
- Our brand strength
- Societal benefits
- Environmental benefits
Our lines of business
Our business is structured to best serve our customers – responding to their needs and delivering value to them.

How we are organised
For most of the year we were organised around five customer-facing lines of business (BT Global Services, BT Business, BT Consumer, BT Wholesale and Openreach) which were supported by our internal service unit, BT Technology, Service & Operations (BT TSO). Our acquisition of EE in January added a sixth line of business.

Management changes
In February 2016 Clive Selley became CEO of Openreach, replacing Joe Garner who left the group. Howard Watson, previously responsible for leading BT’s global IT platforms, replaced Clive as CEO of BT TSO. In addition, in March 2016 Gerry McQuade, who joined BT as part of the EE acquisition and was previously chief sales and marketing officer for EE Business, replaced Nigel Stagg as CEO of BT Wholesale. Marc Allera, previously chief commercial officer for EE, was appointed the new CEO of EE on completion of the acquisition.

Financial overview
BT Global Services is our largest line of business by revenue, generating 34% of the group’s external revenue. BT Consumer is the next largest, contributing 24%.

Around 60% of Openreach’s revenue is generated from other BT lines of business so its contribution to external group revenue is the smallest, at 11%. Total Openreach revenue is equivalent to 27% of group revenue. It is the group’s largest EBITDA contributor, generating 40% of the total, reflecting the return it earns on its extensive network assets. But as a capital-intensive business, Openreach incurs costs relating to capital expenditure and depreciation, which are not reflected in this EBITDA contribution. BT Global Services’ EBITDA margins are below those of the other lines of business reflecting the type of business it does. That’s why, at 16%, its proportion of group EBITDA is below its overall revenue contribution.

People overview
Over 30% of our people work in Openreach. Many of them are engineers, responsible for building, maintaining and upgrading our networks. Over 20% of our people are in BT TSO and group functions, supporting all the customer-facing lines of business. 18% work in BT Global Services, with many supporting our customers worldwide. And 12% are in EE.

Employees by line of business
As at 31 March 2016

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Full-time Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT Global Services</td>
<td>18,500 or 18%</td>
</tr>
<tr>
<td>BT Business</td>
<td>7,900 or 8%</td>
</tr>
<tr>
<td>BT Consumer</td>
<td>6,500 or 6%</td>
</tr>
<tr>
<td>EE</td>
<td>12,800 or 13%</td>
</tr>
<tr>
<td>Openreach</td>
<td>31,500 or 31%</td>
</tr>
<tr>
<td>BT Wholesale</td>
<td>1,300 or 1%</td>
</tr>
</tbody>
</table>

People overview
The acquisition of EE provided us with a chance to refresh our organisational structure and this took effect on 1 April 2016.

Internal reorganisation
We still have six lines of business. Two will focus on businesses and the public sector – one in the UK and the Republic of Ireland and one globally – two will serve consumers and two will provide wholesale services to other industry players. They will all be supported by Technology, Service & Operations. This change will allow us to better serve our different types of customers:

- EE and Consumer will address different parts of the consumer market;
- Business and Public Sector will be able to better align its resources to improve customer service and delivery, and will adopt a more regional and forensic approach to serving the UK public sector; and
- large international and global organisations will benefit from the sharper focus on their needs that Global Services will be better placed to provide.

In this Annual Report we are reporting against our organisational structure as of 31 March 2016. We will report in line with the new structure from the first quarter of 2016/17.
BT Global Services

We're a leading global communications provider. We help around 6,200 corporate and public-sector customers across 180 countries embrace the digital age, innovate and work more efficiently.

We help our customers use communications to create new ways of doing business. We combine our global strengths in networks, IT and innovation with our local presence, expertise and delivery.

During the year we were structured around four regional operations providing specific solutions and expertise to ten key industry sectors:

<table>
<thead>
<tr>
<th>UK</th>
<th>Continental Europe</th>
<th>US and Canada</th>
<th>High-growth regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>Public Sector Automotive</td>
<td>Energy and Resources</td>
<td>Healthcare and Life Sciences</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Media and Business Services</td>
<td>Retail and Consumer Goods</td>
<td>Technology and Telecoms</td>
</tr>
<tr>
<td>Travel, Transport and Logistics</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

New organisational structure

From April 2016, in line with the new BT organisational structure, we’ll be able to focus more on our key areas of strength, serving multinational companies and financial services organisations headquartered in the UK and across the world. As well as continuing to serve the communications needs of major public and private-sector customers outside the UK.

Markets and customers

Customers

We work for around 6,200 corporate and public-sector customers across 180 countries worldwide. We have relationships with:

- 98% of FTSE100 companies;
- 84% of Fortune 500 companies;
- 97% of Interbrand’s annual ranking of the 100 most valuable brands in the world;
- 95% of the world’s top banks; and
- public sector organisations in 29 countries around the world.

We generate over two-thirds of our revenue from corporate customers. Of these, financial institutions are our largest segment, generating 18% of our revenue in the year.

The public sector generated 19% of our revenue. As a key supplier to the UK Government, we’re helping drive its digital transformation.

Around 11% of our revenue comes from providing a range of services to other telecoms companies.

Inputs, outputs and outcomes

Inputs

We have 18,500 people worldwide providing global presence, together with local expertise and delivery. 63% of our people are based outside the UK, in nearly 60 countries.

We have over 2,000 professional services people and a further 2,500 security practitioners to support our global customers.

Our network reaches 180 countries. We combine this breadth with our IT services capabilities to provide global availability for our customers.

Outputs

We bring together a broad portfolio of products and services with industry-specific solutions and consulting expertise.

Our ‘Cloud of Clouds’ strategy brings these together to give customers a great choice of cloud providers, easily and securely, with our network at the core.

Innovation improves the products and services we develop and helps us serve our customers better. We integrate our technologies with those of our partners so that customers can use cloud services (their own, BT’s and third parties) on a global basis.

Outcomes

We generate 34% of the group’s external revenue.

We’re recognised as a global leader in managed network IT services.

‘Cloud of Clouds’ supports our brand. It brings together our cloud services in a coherent way and summarises what we can do for customers as a global cloud services integrator.

We work with our customers to cut their carbon emissions. We’ve opened two new data centres in the UK that will be some of the most environmentally efficient* in the country.

Our top 1,000 customers generate around 90% of our revenue.

On average, our corporate customers typically spend less than 10% of their total IT and communications expenditure with us. So we see an opportunity to grow our share of their spending by broadening and deepening our relationship with them.

BT Global Services revenue by sector

Year ended 31 March 2016

- 52% Corporate customers (excluding financial institutions)
- 19% Public sector
- 18% Financial institutions
- 5% Transit
- 6% Other global carriers

* With a power usage effectiveness (PUE) rating of 1.2 compared to an industry average of 1.7, according to the Uptime Institute.
Regions
The UK is our largest region by revenue. Financial institutions and government and healthcare customers are particularly important in this market.

We have a strong presence in Continental Europe, with national networks and metropolitan fibre rings in most major countries, including Belgium, France, Germany, Italy, the Netherlands, the Republic of Ireland and Spain.

The US and Canada region is important because of the large number of multinationals headquartered there. However our biggest challenge in the US continues to be ineffective regulation of wholesale access to incumbent operator networks. The US regulator is currently analysing the market and we’re actively engaged in the process.

The high-growth regions of Asia Pacific, the Middle East and Africa (AMEA) and Latin America are increasingly important to our customers. We’re helping multinationals expand into these areas and supporting local companies as they grow internationally. We continue to invest in these markets by adding products and services and improving our network and IT infrastructure.

Key market trends
Our main competitors are global telecoms companies such as AT&T, Orange and Verizon. We also compete against IT and business process management companies, the latter particularly in the UK public sector.

The markets we operate in are competitive and we continue to face pricing pressure. We expect organisations to focus on improving operational efficiency by using next generation IT services to cut costs, while expecting more for a lower price.

But some parts of the market are growing. Private and internet network traffic is increasing due to the number of applications that are moving from in-house models to external cloud-based services. We’re investing in a new generation of cloud services to support these areas.

Hybrid cloud, a mix of public and private cloud services, is fast becoming a key aspect of the market. Gartner forecasts that cloud computing services will grow globally at a compound annual growth rate of 32% from 2016–2019.

In this hybrid environment, cyber security is the major concern for organisations. Managed security services are expected to grow at a compound annual growth rate of 14% a year globally over the same period.

And unified communications as a service (UCaaS) delivered via the cloud by third-party providers is forecast to grow at a compound annual growth rate of 46% between 2014 and 2018.

‘Cloud of Clouds’
This year we announced our ‘Cloud of Clouds’ strategy and launched a new generation of cloud services to help customers address their business challenges in a rapidly-changing digital world.

These cloud services rely on technology developed by ourselves and our partners and provide large organisations around the world with a greater choice of cloud services (their own, BT’s and third parties), using our network.
Products and services
We deliver value to our customers by combining a broad portfolio of products and services with industry-specific solutions and consulting expertise. Our network is at the heart of what we provide. We have simple product categories organised around what our customers need. These are:

- **BT Compute**
  - Services that adapt
- **BT Connect**
  - Networks that think
- **BT One**
  - Communications that unify
- **BT Assure**
  - Security that matters
- **BT Contact**
  - Relationships that grow

Service from BT
- **BT Advise**
  - Knowledge that delivers

Industry propositions
- Innovation from BT

**BT Connect**
Network services are at the core of our Cloud of Clouds strategy. They connect our customers to their people, to their own customers, to the cloud and to the world. We offer a range of flexible, intelligent and secure IP, Ethernet and internet virtual private network services, including direct connectivity to third-party cloud services providers. We deliver our network services across 180 countries over a range of access technologies including DSL, Ethernet and satellite.

**BT Assure**
Cyber security is now firmly on the boardroom agenda for many companies with cyber-attacks a daily occurrence. We use the expertise we have from protecting BT to develop products and services (such as firewalls, web security, intrusion prevention and threat monitoring) to protect our customers.

**BT Compute**
Businesses want reliable but flexible IT platforms and services for their applications, data storage and security. We provide IT services across our global network from 48 data centres around the world, 22 of which are cloud-enabled. Our services range from traditional telehousing and colocation to the latest public, private and hybrid cloud solutions, delivered in any combination our customers need.

**BT Advise**
We want to become a trusted adviser for all our customers. Our team of more than 2,000 professional services people provides the connection between business strategy and technology. By giving expert advice and then integrating and managing all essential business technologies, our customers can get the most value from our services.

**BT One**
People communicate using technology in many different ways – by phone, instant messaging, email, audio and video conferencing and data-sharing solutions, either at their desks or on mobile devices. Businesses want these channels to be integrated and to work together easily and reliably.

Our collaboration services help customers simplify their communication channels and transform the way they interact with their customers, colleagues, partners and suppliers. And our mobile services help keep them in touch when they are on the move.

**BT Contact**
Our contact centre services help our customers build stronger relationships with their customers. We offer a number of ways for them to communicate together, including email, web chat, video, social media and the phone – either via automated systems or dedicated advisers.

Our cloud contact solutions give companies more control over their costs, allowing them to change capacity in response to demand.
Industry propositions

Our industry-specific solutions help customers overcome challenges unique to the environments they operate in. For example:

- our Digital Consumer portfolio enables retailers to provide an online experience to shoppers in their physical stores;
- our Field Force Automation solutions provide workers with access to corporate applications, regardless of their location; and
- BT Industrial Wireless services provide mining and oil companies with connectivity to the coalface or wellhead for safer and more cost-efficient operations.

Performance in the year

We have consolidated our position as a global leader for managed network IT services.

We’ve improved our Right First Time performance and have extended our customer satisfaction measures to give clearer insight into customer experience. But we continue to work on service delivery as our loyalty surveys have shown a decline in customer satisfaction, which was largely driven by delays in providing Ethernet circuits in the UK.

We grew underlying revenue excluding transit in the high-growth regions of the world and Continental Europe. But overall it declined, driven by lower UK public sector income and because a major customer in the US started to insource some services. Despite this, we grew our operating cash flow.

Analyst firms recognise us as a global leader in the market. We were positioned as a Leader in Gartner’s 2016 Magic Quadrant for Network Services, Global, for the 12th timea. We were also ranked a Leader in IDC’s MarketScape Worldwide Telecom Service Provider 2015 Vendor Assessmentb.

Examples of how we’re broadening and deepening customer relationships

- Working with Williams Martini Racing, we’ve improved the availability of data in near real-time from each race track back to their headquarters in Oxfordshire. This supports the teams in improving car performance on race days through data analysis.
- We opened new customer showcases. One in New York and a security showcase in the UK with access to highly-skilled cyber security specialists and innovative demonstrations.
- We extended the rollout of our ‘Customer Thermometer’ which takes a regular gauge of customer experience. Customers are asked for feedback via email in a simple format at key points of interaction.
- We use hothousing events to engage with our customers, sharing our extensive knowledge and skills across a broad spectrum of business topics, as well as hearing their views and insights.

Societal benefits

We make a positive difference to communities. In India we’ve been supporting Katha since 2001. We helped it to establish the Katha Information Technology and E-commerce School (KITES) in the heart of Govindpuri, an impoverished area of Delhi. Using an online resource based on Katha methods, the Katha Consortium has now supported over 17,000 young people and educators, and the ‘I Love Reading’ programme has touched the lives of almost 700,000 people.

We’re also working with the Colombian government to bring poorer areas of the country, including rural areas, online. This project will connect over 700 new Vive Digital kiosks across the country, allowing people in these areas to connect to the internet and access e-learning and e-training services as well as a range of online public services. The estimated social value of this work is £1.8m a year.

We’re working with Milton Keynes Council to pilot ‘smart’ parking at the main railway station to help offer a better experience to the town’s residents as well as reducing fuel use and vehicle emissions.

Operating performance

We achieved a total order intake of £6.2bn. While this was down 4%, excluding contract renewals our order intake grew in the year, in line with our strategy to grow our share of our customers’ network and IT spend. Key deals with our top global customers continue to make up a large part overall.

Contracts we won this year include:

<table>
<thead>
<tr>
<th>Customer</th>
<th>Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIA Group (BT Connect)</td>
<td>Providing managed network and security services covering 52 sites in 15 countries across Asia Pacific.</td>
</tr>
<tr>
<td>ALS (BT Connect, BT Assure)</td>
<td>Providing a global managed network comprising WAN services, internet access, cloud connectivity, network acceleration and optimisation, as well as managed security services.</td>
</tr>
<tr>
<td>Caixa (BT Connect)</td>
<td>Increasing the number of lottery outlets that we will serve in Brazil from 14,000 to 18,000, using our network and satellite connectivity.</td>
</tr>
<tr>
<td>Commerzbank (BT One)</td>
<td>Providing a global collaboration system bringing together 49,000 users in 20 countries across the globe.</td>
</tr>
<tr>
<td>European Commission (BT One, BT Compute)</td>
<td>Delivering cloud services across 52 major European institutions, agencies and bodies.</td>
</tr>
<tr>
<td>Walgreens Boots Alliance (BT Connect)</td>
<td>Upgrading and expanding its IT network in 20 countries.</td>
</tr>
<tr>
<td>Zurich Insurance Group (BT Connect)</td>
<td>Modernising and managing its communications infrastructure.</td>
</tr>
</tbody>
</table>

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Gartner footnote: Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications are authored by Gartner analysts, using methodologies described herein, (Gartner Magic Quadrant for Network Services, Global, Neil Rickard, Bjarne Munch, 14 January 2016) represents our research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. (“Gartner”), and are not representations of fact. Each Gartner Report speaks as of its original publication date and not as of the date of this Annual Report and the opinions expressed in the Gartner Report(s) are subject to change without notice.

**Deliver superior customer service**

Customer experience is at the heart of the way we do business. We gather feedback from our customers through our global account management teams and by using third-party surveys.

And this year we extended the rollout of our ‘Customer Thermometer’ to more customers. It takes a regular gauge of customer experience using email to gain customer feedback at key points of interaction.

During the year we:

- improved the speed of service delivery for our main products by 14%. This will remain a key focus for us next year;
- continued to deliver network reliability across our core products;
- introduced pre-emptive, automated service management into our key networks. This means we can identify issues and act on them before the customer feels any impact; and
- started to develop better tools to keep our customers informed of progress on major orders.

Thanks to these improvements, we increased our Right First Time measure 2.3%, building on last year’s 8.6% increase.

However, we did see a decline in overall customer satisfaction in our loyalty survey. This was largely driven by issues around service delivery, in particular delays in providing Ethernet circuits in the UK. We’re addressing this by changing our processes and procedures.

We’re currently piloting a Net Promoter Score (NPS) and will launch this globally next year. This new measure of customer satisfaction will give us much more timely and actionable insight on a customer-by-customer basis.

**Transform our costs**

We’ve continued to reduce our costs with underlying operating costs excluding transit down 1%.

We’re taking tried-and-tested methods from the UK and are using them overseas to reduce the cost of failure, improve efficiency, streamline organisational structure and get better value for money from suppliers.

**Reduce failures in our processes**

We continue to deliver good results by improving how we manage access circuits around the world including:

- removing circuits we no longer need;
- migrating to more advanced technologies with lower unit costs; and
- reducing order backlogs.

**Improving third-party supplier value for money**

We’ve saved money on customer premises equipment by:

- applying best practice on managing discounts and rebates from a large supplier;
- using refurbished kit;
- disposing of unused equipment; and
- insourcing the maintenance of equipment where we have the skills to do this ourselves.

From these, and other, cost transformation programmes, we have not only delivered significant benefits this year but have also identified further opportunities for next year.

**Invest for growth**

We’ve continued to strengthen our capabilities with the launch of new cloud-based services which can be integrated with different suppliers and are available globally.

**High-growth regions**

We’ve improved our cloud-based BT Connect services in Singapore, Hong Kong and Japan. And we also launched our BT MeetMe with Dolby Voice conferencing services in Argentina, Brazil, Colombia and Mexico.

**Our network**

We continued to expand our network; we’ve extended our internet capability including 18 new internet gateways and a three-fold increase to nearly 100 internet global points of presence (PoPs). And we opened two new, highly secure, sustainable data centres in the UK.

We also introduced cloud-based acceleration and security services, marking our first steps on our virtualised network services roadmap.
Our core products and services
We’ve made it easier for our customers to connect securely to third-party providers including Microsoft’s cloud-based Office 365, HP Enterprise Helion Managed Cloud Services and Salesforce.com.

We’ve also made it simpler for customers to integrate video, conferencing and messaging platforms offered by different providers.

In the security area, we:
• introduced a cloud-based DDoS mitigation service;
• launched BT Assure Cyber Defence, an advanced security platform for monitoring, detecting and protecting against cyber-threats; and
• launched two further BT Assure services, Ethical Hacking for Finance and Ethical Hacking for Vehicles (which assesses the vulnerabilities of connected vehicles to cyber-attacks).

Industry-specific solutions
As a founding member of the Acuitas Digital Alliance, we’ve launched our BT In-Store Visibility solution. It gives retailers real-time digital insight from the shop and across the supply chain to give customers in-store the same experience they enjoy online.

Financial performance

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2016 £m</th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6,530</td>
<td>6,779</td>
<td>7,269</td>
</tr>
<tr>
<td>Underlying revenue excluding transit</td>
<td>(2)%</td>
<td>14%</td>
<td>(1)%</td>
</tr>
<tr>
<td>Operating costs</td>
<td>5,482</td>
<td>5,732</td>
<td>6,228</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,048</td>
<td>1,047</td>
<td>1,041</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>518</td>
<td>519</td>
<td>616</td>
</tr>
<tr>
<td>Operating profit</td>
<td>530</td>
<td>528</td>
<td>425</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>415</td>
<td>468</td>
<td>516</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>475</td>
<td>349</td>
<td>499</td>
</tr>
</tbody>
</table>

Revenue decreased 4% (2014/15: 7%) including a £105m negative impact from foreign exchange movements and a £30m decline in transit revenue. Our key revenue measure, underlying revenue excluding transit, decreased 2%, which was an improvement on the 4% decline the year before.

Underlying revenue excluding transit grew 4% in the high-growth regions (2014/15: 9%) reflecting the signing of key deals and the impact of newly-launched capabilities, products and services. Continental Europe delivered 5% growth in underlying revenue excluding transit (2014/15: 2%) reflecting higher IP Exchange volumes and growth from corporate customers.

In the UK our revenue was down 5% (2014/15: 11%) reflecting the decline in our public-sector income. In the US and Canada we had a 9% decline in underlying revenue excluding transit (2014/15: 3%) as a major customer started insourcing some services.

Operating costs decreased 4% (2014/15: 8%). Underlying operating costs excluding transit decreased 1% (2014/15: 5%) reflecting the impact of lower revenue and the benefit of our cost transformation programmes. Operating costs included £25m of leaver costs (2014/15: £nil).

EBITDA was flat (2014/15: up 1%) and was up 1% excluding foreign exchange movements. Depreciation and amortisation was flat (2014/15: down 16%), and operating profit was also flat (2014/15: up 24%).

We reduced our capital expenditure by 11% (2014/15: 9%), largely reflecting improved efficiencies. EBITDA less capital expenditure was up £54m to £633m, a similar increase to last year.

Our operating cash flow of £475m was £126m higher than last year, benefiting from the timing of contract-specific cash flows and the lower capital expenditure.

Key priorities
We’re focused on strengthening our position as a global leader. This will be helped by the April 2016 reorganisation and the renewed focus this provides for Global Services. Our future priorities include:
• strengthening the capabilities that underpin our ‘Cloud of Clouds’ strategy; our network performance, the systems delivering cloud services to our customers, and vertically-integrated solutions for our customers;
• continuing to build deeper relationships with our major customers as their trusted partner;
• transforming our customer service through clearer insight into customer experiences, including the introduction of a ‘Next Generation Service Desk’;
• continuing to drive down costs to become a more efficient organisation;
• investing in the technologies which help our customers embrace the digital age; and
• further strengthening our defences against attempted cyber-attacks and fraud, and supporting customers in their security challenges.

We’ve also set ourselves some specific ambitions over the next three years:
• to grow our share of spending with our Global Accounts by 10%;
• to achieve double-digit percentage annual growth rates in the revenue we generate in security, cloud unified communications and Cloud Compute; and
• to increase our net promoter score by at least ten points.
BT Business

BT Business sells communications and IT services in the UK and the Republic of Ireland. We have around 900,000 customers and are leaders in fixed-voice, networking, cloud services and broadband.

In BT Business we’re passionate about helping businesses of all sizes succeed. From household names and public-sector organisations right through to small businesses and start-ups, we help organisations use the power of technology to change, compete and thrive.

It’s not just business customers that rely on us. We play a critical role in society through our management of the 999 service in the UK and the Republic of Ireland. And we keep the rest of BT Group on the road by managing and servicing the large fleet of BT vehicles.

During 2015/16 we had four customer-facing divisions:

- **UK SME**
  Small to mid-market companies plus specific target markets for specialist services
  - Typically customers have <300 employees
  - BT Redcare
  - BT Directories
  - BT Payphones

- **BT Business Solutions**
  UK SMEs, corporates, some public-sector organisations
  - Typically customers have 250-5,000 employees
  - BT Global Services and BT Wholesale customers
  - BT Fleet

- **UK Corporate**
  Larger businesses and corporate mid-market
  - Typically customers have 100-1,000 employees

- **BT Ireland SMEs and public sector in Northern Ireland**
  Public sector, corporates and wholesale in the Republic of Ireland

- **Ireland network infrastructure**

  - ‘sell through’ relationship

UK SME

UK SME supplies small businesses, ranging from sole traders through to more complex organisations (including schools and colleges), with communication solutions and IT services. We serve our customers through a number of channels including our network of 40 independent BT Local Business franchisees.

We also have three specialist businesses:

<table>
<thead>
<tr>
<th>Business</th>
<th>Providing</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT Redcare</td>
<td>Fire and security alarm signalling services, surveillance networks and control room services.</td>
</tr>
<tr>
<td>BT Directories</td>
<td>Directory Enquiries, The Phone Book, website services, operator services and call handling for the emergency services.</td>
</tr>
<tr>
<td>BT Payphones</td>
<td>Public, private and managed payphone services.</td>
</tr>
</tbody>
</table>

**Inputs, outputs and outcomes**

**Inputs**

We have access to the UK’s largest fibre network and, going forward, the fastest 4G network through EE.

We partner with leading companies such as Broadsoft, Cisco, HP and Microsoft.

We’re an organisation of around 8,000 people providing local, regional and national coverage across the UK.

**Outputs**

We offer a wide choice of fixed, mobile and IT services.

We’re growing our portfolio of converged, IP and cloud-based products and services.

This year we invested in 40,000 hours of training for our customer-facing people.

**Outcomes**

We’re the leading UK provider of fixed business communications and IT services and represent 15% of BT’s revenue.

We support communities through volunteering and play a critical role in society through managing the 999 service.

We help young people to learn and develop through our apprentice scheme.

**UK Corporate**

UK Corporate serves larger businesses (typically 100 to 1,000 employees), offering both standard and bespoke communications solutions and IT services.

BT Fleet supplies BT and external customers with fleet management solutions. It’s one of the UK’s leading providers of fleet maintenance and accident management services.

**BT Business Solutions**

We provide IT services to UK customers through four specialist IT businesses:

- **Business**
  - BT IT Services
  - BT Business Direct
  - BT Expedite
  - Tikit

- **Providing**
  - IT hardware and networked IT solutions, managed and support services, and consulting services.
  - IT and communications hardware and software, including computing and networking equipment, sold online.
  - Specialised IT services for the retail sector.
  - Bespoke IT products and services for legal and accountancy firms.

BT Business Solutions typically targets organisations with 250 to 5,000 employees. We sell solutions and IT products primarily through the UK Corporate and UK SME channels. We also sell to customers of BT Global Services and BT Wholesale. BT Business Direct, BT Expedite and Tikit have their own direct sales functions.

**BT Ireland**

In Northern Ireland we’re the largest provider of communications services for small and medium-sized enterprises (SMEs) and a leading supplier of networked IT services for public sector and corporate customers.
In the Republic of Ireland we provide networked IT services for the public sector and large businesses and we provide wholesale services to other communications providers.

**New organisational structure**
From 1 April 2016 we’re creating a line of business called Business and Public Sector. This will consist of the existing BT Business organisation, along with the EE business division and some of BT Global Services’ UK corporate and public sector teams. A number of our specialist businesses (including BT Fleet, BT Redcare, BT Directories, BT Payphones and Tikit) will move into the new Wholesale and Ventures line of business.

As the new Business and Public Sector line of business, we’ll:
- be a provider of communications and IT services to businesses and the public sector in the UK and the Republic of Ireland, serving over 1.2m customers;
- offer the best fixed and mobile networks to provide seamless, converged business services;
- have 12,000 people located across the UK and the Republic of Ireland dedicated to giving our customers the best experience; and
- generate revenue of around £5bn.

**Markets and customers**
There are 5.4m SMEs in the UK. They are critical to driving economic growth. They make up 99.9% of all UK businesses, and account for 60% of private-sector employment and 47% of business revenue.

Sole traders and small businesses typically buy fixed-lines, mobile and broadband. Larger customers buy a broader range of communications services which include Ethernet and cloud-based products.

We have around 900,000 customers including more than half of FTSE350 companies. Major customers include:
- **retailers** like Halfords;
- **public sector organisations** like the London Fire and Emergency Planning Authority;
- **construction companies** like Morgan Sindall;
- **financial organisations** like Old Mutual Wealth; and
- **educational institutions** like University of West Scotland.

We’re focused on three main product markets: fixed-voice and data; mobility; and IT services. We expect these markets to increasingly converge over the next few years as technology and customer needs evolve towards integrated services.

**Fixed-voice and data**
The UK fixed-voice and data market that we address is worth around £4.6bn. Our share is around 31%.

We compete against more than 800 resellers and fixed network operators. Our main competitors are Alternative Networks, Azzurri, Colt Group, Daisy Group, Gammas, KCOM Group, O2, TalkTalk, Unicom, Virgin Media, Vodafone and XLN.

There are 7.7m (2014/15: 7.7m) business lines in the UK, including those used by both SMEs and large corporations. Some of these lines are provided by BT Global Services. There are more lines than businesses as many customers buy more than one line.

The number of business fixed-lines has decreased over the last few years as companies move towards VoIP and/or mobile solutions. Businesses have also made fewer calls over their fixed-lines because of the growth in email and other online communication. Call volumes in the market are 12% lower than a year earlier.

We have a 46% market share of business lines (excluding VoIP), broadly level with last year.

Demand for faster and more reliable broadband connections is growing, with continued migration towards fibre. Businesses want faster broadband to communicate, to transact with customers and suppliers, and to maintain a competitive advantage.

We’re the largest business broadband provider in the UK, with over a third of the market for businesses with one or more employees.

Ethernet and dedicated internet access services are growing strongly, with businesses becoming increasingly reliant on connectivity. We’re the leading provider of fixed networking services in the UK with around a quarter of the market.

**Mobility**
The competitive landscape in the UK is evolving rapidly as businesses look to exploit the opportunities of services such as 4G to work more flexibly and efficiently, and also to buy more of their communications services from a single supplier.

Our main competitors are O2 and Vodafone. Both offer fixed products as well as mobile and are increasingly selling converged services.

Our acquisition of EE means we’ll be able to respond more rapidly to these trends and accelerate the growth of our fixed-mobile services.

**IT services**
The IT services market is very diverse, ranging from off-the-shelf hardware sales to large outsourced solutions. Competition is fragmented with providers often focused on specific customer-types, industries or technologies. Our main competitors are Computacenter, Dimenson Data, Kelway, Logicalis, SCC and Softcat.

We estimate that the parts of the market we serve are worth around £8bn, of which we have around 6% share. The areas of the market that are growing include cloud services, hosting, infrastructure and security. They offer attractive opportunities for us to grow our share of the overall market.

**Market size and BT Business share**

<table>
<thead>
<tr>
<th>Market category</th>
<th>£bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-voice and data&lt;sup&gt;a&lt;/sup&gt;</td>
<td>31%</td>
</tr>
<tr>
<td>Mobility inc EE&lt;sup&gt;b&lt;/sup&gt;</td>
<td>20%</td>
</tr>
<tr>
<td>IT services&lt;sup&gt;c&lt;/sup&gt;</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: BT Business revenue and IDC market sizing model.

<sup>a</sup> Market size and our market share for fixed and mobility services includes <1,000 employees and the addressable proportion of the 1,000+ employee market.

<sup>b</sup> Mobility market size excludes devices and is focussed on mobile contracts only.

<sup>c</sup> IT services market size includes只 the product and service portfolio we address for the 250 to 5,000 employee segment. The revenue in use to calculate our market share includes sales of BT Business IT products and services through BT Global Services as well as our direct channels.
Products and services

We offer a wide choice of fixed, mobile and IT services. These range from standalone products to managed services and customised solutions, suiting the needs of customers from small start-ups to large enterprises.

Fixed-voice

Our fixed-voice services range from calls and lines to fully-managed office phone systems and contact centre solutions. We’ve continued to develop BT Cloud Voice and BT Cloud Phone in our growing portfolio of VoIP services.

We’ve launched Call Essentials, two great value fixed-price packages for small businesses. Customers can get unlimited calls to UK landlines and mobiles, together with an international option, giving them peace of mind about their bill.

Broadband and internet

We provide a range of internet access options including: BT Business Broadband (over copper connections); BT Business Infinity over fibre-to-the-cabinet (FTTC) and fibre-to-the-premises (FTTP); and BTnet dedicated internet access.

We’ve added the option to ‘self-install’, making it even easier for our customers to benefit from superfast fibre broadband.

And we’ve launched an online app store to allow customers to conveniently manage and tailor any extra software needs (such as security, backup and Microsoft Office).

Networking services

Our voice and data networking services support customers who need to connect more than one site. Products include Ethernet, IP virtual private network services (which use IP connections), SIP trunking (which transports voice calls over IP networks), leased lines, cabling infrastructure and local area networking solutions.

IT services

Our specialist IT services team provide solution design, through to delivery, management and in-life support, built around five core product areas:

- end-user computing;
- unified communications and collaboration;
- networking;
- security; and
- data centres, cloud and hosting.

These services are supported by partnerships with the likes of Cisco, HP and Microsoft.

Mobility

We offer a range of handsets and tablets and a choice of voice and data tariffs.

BT One Phone combines office phone and mobile requirements into one cloud-based solution delivered through the customer’s mobile phone.

This year we improved the voicemail service, including new recording features.

Before we bought EE, we operated as a mobile virtual network operator (MVNO) on the EE network. We’re confident that by bringing together the EE and BT networks we can launch a broader range of new converged and innovative services.
Performance in the year

We’ve increased EBITDA for the fourth year running through our continued focus on cost transformation.

Underlying revenue excluding transit was flat with the continued fall in business line volumes offset by growth in VoIP services, fibre broadband and networking.

Our fibre broadband base has increased 45% and our IP lines are up by 62%. We’ve made some customer service improvements this year and have clear plans to go further.

We’ve been learning more about our customers so we can deliver the services and performance they need to succeed.

Examples of how we’re broadening and deepening customer relationships

- We’ve contacted more customers than ever before to see how we’re doing, and have learnt from their responses.
- We’ve been working with education and technology partners to develop the ‘Connected Campus’ blueprint. This means colleges can build and run a campus platform that uses technology to help students and staff better engage.
- We’ve used our network expertise to help Shropshire Housing Group reduce costs while offering its clients a better service. We provided a ‘smart’ managed WAN with enhanced network intelligence which delivered greater reliability and the savings they required.

Operating performance

Our order intake of £1,967m was down 5% after last year included a number of particularly large deals.

The number of business lines we provide reduced 7% as customers continue to migrate to VoIP. This has been partly offset by growth in the number of IP lines we provide, which was up 62%. We’re seeing strong take-up of our BT Cloud Voice and BT Cloud Phone services with the number of users up 29% and 34% respectively in the fourth quarter alone.

Our Call Essentials packages are also performing well. We’ve signed up over 80,000 customers since launch.

Contracts we won or re-signed this year include:

<table>
<thead>
<tr>
<th>Customer</th>
<th>Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Towergate Insurance</td>
<td>We’re helping Towergate Insurance to save costs and improve efficiency by consolidating systems and by bringing together lines, mobiles, hosted contact centres and inbound call service into one managed service contract.</td>
</tr>
<tr>
<td>Old Mutual Wealth</td>
<td>We’re providing a global WAN, wi-fi, LAN, security and conferencing service which forms part of a strategic transformation programme for Old Mutual Wealth as it builds the UK’s leading retail investment business.</td>
</tr>
<tr>
<td>University of West Scotland</td>
<td>We’re providing WAN and LAN services, unified communications and education-specific analytical software to enhance the student journey.</td>
</tr>
<tr>
<td>Sanctuary Personnel</td>
<td>We’re providing BTnet connectivity, cloud voice and infrastructure for a rapidly growing recruitment provider offering future expansion capacity. A key attraction for Sanctuary was the ability to work with a single supplier.</td>
</tr>
</tbody>
</table>

BT Business 12-month rolling order intake

Year ended 31 March

£m

- 2,000
- 1,900
- 1,800

Deliver superior customer service

Our vision is to be the market leader for customer service within three years. But with our Right First Time measure down 5.9% (2014/15: up 5.1%), we know we need to do better.

Our customer service measure has been significantly impacted this year by the wet winter weather which caused delays in speed of response for repairs. To mitigate this type of impact, we’ll continue to invest and make changes until we can provide a consistently better experience. We’ve already seen signs we’re on the right track.

We measure feedback directly from our customers and via our net promoter score, which has increased by 2%. Our people’s hard work has meant that we’ve seen an 8% decrease in complaints since last year. We’ve also improved our ability to resolve issues to the customer’s satisfaction at first point of contact, and this measure has increased 4%.

During the year we:

- increased the number of customers on our ‘UK Business Solution’ system to 93% of the total. This platform brings all the core products and services that we sell in large volumes onto a single system, making it easier to serve customers who buy multiple products from us. It gives us a single view of the customer’s account, providing all the right information at the right time;
- simplified our packages and offers, adding great value bundles so our customers can get all of their communications needs from us;
- invested in 40,000 hours of training for our customers’ operational teams; and
- proactively contacted our customers after the delivery of their orders to check their products are working correctly and they’re getting the most out of their new service.

We’re proud that our investment in our people and their performance meant we were shortlisted for two awards, from the British Quality Foundation and the Institute of Customer Service.

Transform our costs

Operating costs were down 2% due to savings made through our cost transformation activities. The main reason for the lower costs was a 4% reduction in our total labour resource.

We’ve also made savings in other areas such as renegotiating some supplier contracts, which has saved £29m this year.

Continued investment in back office systems and the migration of customers onto the UK Business Solution has enabled greater efficiencies.

Invest for growth

We’ve made significant investments in our products and services. We want to meet customer needs and address market opportunities across our three strategic portfolio areas: fibre and connectivity; mobility and future voice; and networked IT services.

We’ve invested to improve the speed, reach and quality of broadband services by improving our network infrastructure. We’ve invested in our managed compute cloud services product and our future voice portfolio, focusing on delivering an excellent customer experience.

This year we migrated our existing mobile customers over to the EE network, which means our customers can now access the UK’s largest 4G mobile network.

Helping SMEs get faster connections

We’ve helped more SMEs get online this year. Faster broadband connections have been shown to really benefit SMEs by increasing employee effectiveness, speeding up the delivery of goods and improving their ability to develop new services.

We joined a discount scheme backed by the Department for Culture, Media and Sport (DCMS) to encourage faster adoption of superfast broadband.

We’re proud to be ranked the number one supplier by DCMS ahead of 840 suppliers including Virgin Media and TalkTalk.

When the scheme closed in October 2015 we had provided almost 8,800 SMEs across the UK with discounted superfast connections.

86% of firms reported that their broadband upgrade had increased their employees’ effectiveness.

Almost 70% reported increased speed and reliability of delivering goods or services.

45% reported that the upgrade had improved their ability to develop new goods or services.

Source: Department for Culture, Media and Sport.
Following the April 2016 reorganisation we have a refreshed and expanded focus on the business and public-sector markets in the UK and the Republic of Ireland. Our future priorities include:

- successfully launching our new Business and Public Sector organisation including delivering efficiencies;
- introducing our full portfolio of fixed, mobile and IT services to existing BT customers and those acquired with EE;
- developing and integrating further our portfolio of products and managed services; and
- continuing to improve the customer experience we provide.

We’ve also set ourselves some specific ambitions over the next three years:

- increase the number of ‘revenue generating units’ by 15%;
- generate double-digit percentage revenue growth in IP voice, mobile, networking and IT services;
- deliver a 20-point improvement in our net promoter score; and
- become the market leader for customer service.

### Financial performance

<table>
<thead>
<tr>
<th></th>
<th>2016 £m</th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3,130</td>
<td>3,145</td>
<td>3,213</td>
</tr>
<tr>
<td>Underlying revenue excluding transit</td>
<td>0%</td>
<td>(1)%</td>
<td>(1)%</td>
</tr>
<tr>
<td>Operating costs</td>
<td>2,054</td>
<td>2,104</td>
<td>2,211</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,076</td>
<td>1,041</td>
<td>1,002</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>198</td>
<td>180</td>
<td>197</td>
</tr>
<tr>
<td>Operating profit</td>
<td>878</td>
<td>861</td>
<td>805</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>138</td>
<td>187</td>
<td>127</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>819</td>
<td>874</td>
<td>799</td>
</tr>
</tbody>
</table>

Revenue was broadly flat (2014/15: 2% decline) with underlying revenue excluding transit also flat (2014/15: 1% decline).

SME & Corporate voice revenue decreased 2% (2014/15: 5%) with higher average revenue per user and higher uptake of VoIP services partly mitigating the continued fall in business line volumes. The number of traditional lines declined 7%, but this was partly offset by a 62% increase in the number of IP lines.

SME & Corporate data and networking revenue increased 3% (2014/15: 2%) with continued growth in fibre broadband and our networking products. Business fibre broadband net additions were up 17% year on year.

IT services revenue decreased 1% (2014/15: 1%), BT Ireland’s underlying revenue excluding transit was up 7%, with higher equipment sales and data and call volumes in the Republic of Ireland, and continued fibre broadband growth in Northern Ireland. Foreign exchange movements had a £22m negative impact on BT Ireland revenue.

Operating costs were down 2% (2014/15: 5%) and underlying operating costs excluding transit were also down 2% (2014/15: 4%). EBITDA grew 3% (2014/15: 4%). Depreciation and amortisation increased 10% (2014/15: 9% decrease) mainly reflecting our investment last year in BT Fleet vehicles to support Openreach. Operating profit grew 2% (2014/15: 7%).

Capital expenditure decreased £49m (2014/15: £60m increase) reflecting our investment in BT Fleet vehicles last year. Operating cash flow was 6% lower (2014/15: 9% higher) reflecting the timing of working capital movements.
BT Consumer

BT Consumer is the largest provider of consumer broadband and fixed-voice in the UK. We want to deepen our customer relationships through selling broadband, TV, BT Sport channels and mobile services to our customers.

We connect millions of households and people to information and entertainment, to friends and family, at home or on the move. Whether they’re banking on their laptop, watching movies through their YouView box, or tweeting on their smartphone, we’re making it fast, safe, reliable and easy.

We also offer a range of devices including telephones, baby monitors and set-top boxes through high street retailers. And we offer commercial services for businesses who want access to BT Sport or connectivity through BT Wi-fi.

Through our award-winning second brand, Plusnet, we target price-conscious customers with fixed-line, broadband and TV services.

Inputs, outputs and outcomes

Inputs

BT Consumer employs over 6,000 people, with over 70% directly helping our customers through our contact centres.

We buy access to the Openreach network to sell fixed-line and broadband services.

We’ve secured exclusive rights to broadcast sports content to our customers.

Outputs

We provide connectivity services over copper lines, fibre broadband and 4G mobile.

Developments such as the BT Sport and My BT apps help improve customer engagement.

This year we provided over 770,000 hours of training to our contact centre agents.

Outcomes

We generated 24% and 16% of BT’s revenue and EBITDA respectively.

We encourage volunteering, with 55% of BT Consumer employees volunteering in the year.

We work closely with our suppliers to make our products and business operations more sustainable, right through the supply chain and to the customer.

We helped over 9,000 charities raise £60m in the year through MyDonate, our commission-free online fundraising and donation platform.

Markets and customers

The UK population consists of around 64m individuals and around 27m households. The telecoms market is very competitive with more than ten fixed-line operators, seven major bundled product suppliers and four mobile network operators.

Pay-TV is less competitive with only four providers.

Most of our major competitors, including Virgin Media and TalkTalk, offer bundled services which include fixed-line, mobile, broadband and TV services. Sky and Vodafone have both announced plans to offer all four services as well.

BT Consumer market share

As at 30 September 2015

<table>
<thead>
<tr>
<th>Service</th>
<th>BT Consumer</th>
<th>Plusnet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home phone</td>
<td>37</td>
<td>33</td>
</tr>
<tr>
<td>Broadband</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay-TV</td>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Ofcom and BT data.
Home phone
As at 30 September 2015 there were 25.9m fixed residential phone lines in the UK, 2.5% above last year. Our share of this market declined to 37% from 38% the previous year as more households chose to consolidate their services with one provider.

People are using their home phones less with call volumes down 12% over the year. This was a result of migration to mobile, voice over IP and instant messaging services.

Broadband
There were around 24.5m broadband connections in the UK as at 31 December 2015. Our broadband base among homes and small businesses is now 8.1m (excluding EE), a market share of 33%.

Services requiring higher speeds and capacity, such as catch-up TV and on-demand services from the BBC, Netflix and Amazon, are driving the take-up of fibre broadband. Including Virgin Media there were 10.2m fibre broadband or cable lines as at 31 December 2015, more than 40% of all broadband lines.

See page 85 for more details on the broadband market.

TV and content
The pay-TV market grew to 15.2m UK households at the end of December 2015, up 3% compared with a year earlier. BT TV has 9% of the total market. Pay-TV services are available from a number of suppliers:

- Sky (satellite);
- Virgin Media (cable);
- BT and EE (Freeview with IP TV channels); or
- TalkTalk (Freeview with IP TV channels).

Customers who choose not to pay for their TV service mostly access live TV channels through Freeview or Freesat. The overall number of households without a pay-TV subscription declined to 10.9m at the end of December 2015. And there are some homes that don’t have a TV at all.

TV market segmentation
At 31 December 2015

58%
Pay-TV
42%
Freeview or Freesat

Source: Ofcom and market data.

‘Over-the-top’ services continue to grow in popularity with 6.8m households subscribing to a service from Netflix, Amazon or Now TV.

Sky has had exclusivity over much of the UK’s premium content for many years. We continue to pursue commercial, legal and regulatory avenues to obtain access to Sky’s sports channels for our TV customers on a fair basis to increase competition and consumer choice.

Mobile
The UK mobile market is discussed in the EE section on page 76.

Products and services
We sell five main services: home phone, broadband, TV, mobile and our sports channels. We offer a variety of packages to our customers with a range of ‘add-ons’.

Home phone
We provide a range of products and calling plans, allowing customers to choose the best service for their household needs:

- Line Rental Saver gives customers a discount on their line rental if they pay for a year upfront;
- Line Rental Plus comes with Call Barring and Choose to Refuse, and gives customers the choice of paying bills automatically by Direct Debit, or paying when they receive the bill;
- Home Phone Saver offers line rental, inclusive calls and extra calling features in one simple package at a discounted price;
- BT Basic offers discounted line rental and inclusive calls to those on low incomes and in receipt of certain state benefits (such as income support). We’re the only company to offer a service like this; and
- Right Plan is a free service our customers can use to find out whether they are on the right calling plan for the kinds of calls they make.

All our home phone services come with weekend call bundles and we provide call packages that let customers choose inclusive evening or anytime calls to fixed-lines, and discounted calls to mobiles.

We’re in the process of developing a free service aimed at blocking the majority of nuisance calls made to our home phone customers. We’ll launch this in 2016.

Broadband
We offer two versions of broadband: an ADSL service, delivered completely over copper lines; and BT Infinity, our superfast broadband service, which uses fibre to deliver higher speeds and a better overall experience.

We offer a range of options with different usage limits and speeds. In addition, our broadband customers can get:

- discounted BT Sport, our collection of premium sports channels;
- discounted BT Mobile, offering SIM-only mobile packages;
- our suite of tools such as BT NetProtect Plus, to protect family members and devices from harmful websites and other malware;
- BT Wi-fi, offering free unlimited access to wi-fi hotspots in the UK and abroad; and
- BT Cloud, providing secure online storage and on-the-go access to data and photos.
BT TV
Our BT TV service is available exclusively to our broadband customers. We offer three packages:

- **Starter.** This is our entry-level offering. With our YouView box, customers can pause and rewind live TV and receive up to 80 Freeview TV channels;
- **Entertainment Plus.** This package comes with a YouView+ box and access to Freeview and 27 pay-TV channels; and
- **Total Entertainment.** Our most complete package offers access to Freeview and 49 pay-TV channels, and comes with an Ultra HD-ready YouView+ box.

Customers on our YouView platform can ‘scroll back’ seven days for easy access to catch-up TV from BBC iPlayer, ITV Hub (formerly ITV Player), All 4 and Demand 5.

All BT TV customers still in contract get access to our BT Sport channels and the AMC channel at no extra cost in standard definition.

In addition, BT TV customers can add extra channel packs and other on-demand services such as ‘BT Kids’, Sky Sports 1 and 2, Sky Movies and Netflix. Customers can also rent or buy TV shows and films.

In July 2015, we launched the UK’s first Ultra HD TV service with content from BT Sport. We later added Netflix Ultra HD.

In February 2016, we upgraded our TV app on both Apple and Android devices adding a new, dedicated kids on-demand and catch-up library, seven more channels and a wider collection of premium entertainment content.

BT Sport
We provide live coverage of domestic and international sports across four channels.

We offer BT Sport in SD, HD and Ultra HD formats and the channels are available on BT TV, our BT Sport app, btspor.com and on the Sky Digital Satellite Platform.

We reward our broadband, TV and mobile customers with discounted access to BT Sport on their preferred platform.

We also have wholesale agreements for the distribution of BT Sport to Virgin Media TV customers, and in the Republic of Ireland with Setanta.

BT Mobile
We launched BT Mobile in March 2015, focusing initially on the SIM-only part of the market.

All our plans come with access to 4G, unlimited use of BT Wi-fi, unlimited text messages and free access to BT Sport 1. We provide three packages offering a variety of data and call allowances.

BT Mobile customers can keep track of their usage through the BT Mobile app. Customers can also use the app to buy various bolt-ons including roaming bundles.

BT Mobile uses EE’s 4G network offering the best speeds and coverage in the UK.

BT Wi-fi
We provide public wi-fi services to a growing number of partners, including Tesco, Barclays and Hilton.

Using our BT Wi-fi app, all BT Broadband and BT Mobile customers can seamlessly connect to wi-fi in these partner locations, as well as to the 5.6m BT Wi-fi hotspots in the UK and a further 13m internationally as part of our partnership with FON.

We also offer a range of vouchers for non-BT customers to access the network.
Performance in the year
Revenue growth of 7% (2014/15: 7%) has been driven by higher customer numbers in broadband and by our new BT Sport Europe channel. But our investments in these areas meant our EBITDA grew by only 1%.

We increased our share of the DSL and fibre broadband market for the seventh year in a row, had our best-ever take-up of TV, and our lowest line losses for more than eight years.

Examples of how we’re broadening and deepening customer relationships

- Customers buying more products from us can save money and get an even better service.
- By making some football games free on BT Sport Showcase, we’ve been able to show a further 0.7m homes what’s on offer.
- Sharing multimedia content on social media sites is helping us explore new ways to engage sports fans without the need of a subscription.

Operating performance
At 31 March 2016 we had 9.5m consumer fixed–lines (2014/15: 9.6m), with 9.4m active voice lines (where a customer buys calls from us as well as paying for the line). We lost 81,000 net active lines, compared with 203,000 last year.

We achieved 390,000 broadband net additions this year, 63% of the DSL and fibre broadband market net additions. This took our overall market share to 41%, up from 40% a year ago.

We’ve continued to grow our fibre base, and now have 3.9m fibre broadband customers (including business lines), a 29% increase from last year. 48% of our retail broadband customers are now on fibre, compared with 39% last year.

We achieved 330,000 BT TV net additions, our best ever performance, and now have 1.5m BT TV customers, up 28%. We grew the number of commercial premises taking BT Sport to 27,000, including 30% of all UK pubs.

BT Sport’s average daily audience figures increased 45% year on year, from the start of the football season in August 2015 to the end of March 2016. Almost all of the FA Premier League matches we showed this season reached over 1m viewers.

Average revenue per user
Year ended 31 March

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>351</td>
<td>415</td>
<td>446</td>
</tr>
</tbody>
</table>

Our average revenue per user (ARPU) was £446, up £31 from last year driven mainly by broadband, our new BT Sport Europe channel, BT Mobile and changes in our pricing.

Our BT Mobile base is now over 400,000 with over 40% of our customers choosing one of our two higher-tier packages.

Deliver superior customer service
We’ve made investments in 2015/16 that will improve customer experience in the future. But we didn’t make as much progress as we would have liked, particularly on our Right First Time measure of customer service. In March 2016 we answered 60% of customer calls (March 2015: 51%) from within the UK, with a commitment to increase this to 90% by March 2017.

This means a significant change for our people, who will be working more evenings and weekends which is often when customers want to speak to us.

We gave our front-line agents over 770,000 hours of extra training so that they can more effectively prevent and resolve customer problems.

We’ve started to introduce a new way of working focused on people taking ownership of resolving problems. Customer satisfaction is improved where this has been introduced.

We’ve invested in new and more convenient ways for customers to deal with us, such as the award-winning My BT app. This allows customers to do things like check their bill or track their broadband usage. The app has been downloaded more than 435,000 times and we’re continuing to regularly add more features.

We’re replacing the systems in our customer service centres with simpler ones which are built on web-based technologies and re-use a version of our external website. This should drive higher productivity and better customer satisfaction.

Right First Time, our overall measure of customer service, declined 2.1% (2014/15: increased 1.9%). While we’ve improved on our measure of how often a customer needs to contact us by 15% year on year, we haven’t met our promises around delivering on-time for enough of our customers, partly reflecting problems from wider industry demand for Openreach products. Our measure has also been impacted by the widespread flooding in parts of the UK this year.

BT Mobile is our best performing ‘Right First Time’ product with both on-time delivery and on-time repair above 95%.

BT Mobile
BT Mobile was designed from the start using customer insight. As a result, it has the best customer satisfaction of all BT Consumer products. Key features include:

- discounts for BT Broadband customers;
- UK contact centres;
- the BT Mobile app; and
- spend controls that help people avoid ‘bill-shock’.

* Data excludes EE’s fixed-line and broadband business. For these, see page 78.
Transform our costs

Operating costs increased 9% reflecting the costs of the UEFA Champions League and UEFA Europa League rights and the growth in our customer base. The increase was partly offset by our cost transformation activities.

We delivered savings this year by:

- extending our fibre self-install programme across all fibre products, including Plusnet’s, which further reduced the number of engineer visits and the associated cost;
- reducing customer equipment costs by negotiating better commercial terms with our suppliers; and
- improving our real-time network diagnostics, helping us to more quickly find the right solution for customer faults, avoiding unnecessary engineer visits.

Invest for growth

In the summer we launched our new BT Sport Pack, the home of European football, increasing the choice of content for our customers and increasing engagement with sports fans. We also launched an improved BT Sport app and Europe’s first Ultra HD sports channel.

In August we exclusively launched AMC’s UK channel. AMC is a leading US TV network with a track record of producing successful premium dramas. We also extended our deal with UKTV to include all ten of its channels as well as gaining access to the UKTV Play service.

We’ve added the UK rights to show all Australian home cricket internationals, including the 2017/18 Ashes. The five-year rights deal starts in 2016. In addition, we extended the rights for the FA Cup until 2021.

We launched BT Mobile and our advertising is improving the perception of the service and is attracting subscribers.

Financial performance

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£4,598</td>
<td>£4,285</td>
<td>£4,019</td>
</tr>
<tr>
<td>Operating costs</td>
<td>£3,561</td>
<td>£3,254</td>
<td>£3,186</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£1,037</td>
<td>£1,031</td>
<td>£833</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>£206</td>
<td>£218</td>
<td>£219</td>
</tr>
<tr>
<td>Operating profit</td>
<td>£831</td>
<td>£813</td>
<td>£614</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>£206</td>
<td>£207</td>
<td>£211</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>£762</td>
<td>£813</td>
<td>£472</td>
</tr>
</tbody>
</table>

Revenue increased 7% (2014/15: 7%) with a strong performance across broadband and TV resulting from the launch of our European football coverage.

Calls and lines revenue increased 2% (2014/15: 1%), reflecting the lowest level of line losses for over eight years, new pricing and the launch of BT Mobile.

Broadband and TV revenue was up 17% (2014/15: 16%) including the impact of the launch of our European football proposition, continued growth in broadband and our best-ever year for adding new TV customers.

Other revenue decreased 10% (2014/15: 6% increase) after last year benefited from the successful launch of the BT8500 Advanced Call Blocker handset.

Operating costs were up 9% (2014/15: 2%). This reflected the launch of our European football proposition including the sports rights costs as well as the cost of launching the channels in August.

Excluding UEFA rights costs, operating costs increased 3%, mainly reflecting the growth in our customer base.

EBITDA increased 1% (2014/15: 24%).

Depreciation and amortisation decreased 6% (2014/15: broadly flat). Operating profit increased 2% (2014/15: 32%).

Capital expenditure was flat (2014/15: down 2%). Operating cash flow decreased 6% (2014/15: 72% increase) reflecting unfavourable working capital movements relating to the timing of our sports rights and capital expenditure payments.

Key priorities

Our future plans include:

- continuing to transform our customer service with 90% of all calls being answered within the UK by March 2017;
- launching our new FA Premier League rights and Australian cricket rights on BT Sport;
- trialing and launching ultrafast broadband using Openreach G.fast products;
- launching mobile handsets to unlock a new market opportunity while creating synergies with EE;
- introducing a new YouView user interface to drive better engagement with our content;
- launching our breakthrough new service to help home phone customers avoid nuisance calls; and
- increasing the number of ‘revenue generating units’ by 2.5m over the next three years.
EE

We acquired EE on 29 January 2016. EE is the largest mobile network operator in the UK. It provides mobile and fixed communications services to consumers, businesses, the public sector and the wholesale market.

EE came into the group as a separate line of business and that is how it’s reflected in this Annual Report. In EE, we have over 30m connections, 15m of which are 4G. New customers join on the EE brand, though we still have a number of customers on legacy Orange and T-Mobile tariffs. We acquire and retain customers through our chain of about 560 shops, our website and contact centres, and through third parties, such as Dixons Carphone.

Our mobile network is the biggest and fastest in the UK and has been independently recognised as the best overall network by RootMetrics in its latest report for the second half of 2015.

By September 2015 total UK mobile call volumes were steady at around 35bn minutes per quarter. SMS and MMS messages were down 8% to 25bn messages per quarter on average. Mobile telephony services generated £3.8bn in retail revenues in the quarter to September 2015, down 1% year on year.

The market is subject to a number of existing and potential structural changes:

• rapid adoption of 4G devices as 4G networks are deployed. Nearly all handsets sold are therefore smartphones;
• growth of connected devices, including tablets;
• significant growth in mobile data use;
• continued decline in the prepaid market as customers move to postpaid tariffs;
• increased popularity of SIM-only tariffs. Smartphones are evolving at a slower pace so people are keeping their mobile phones for longer;
• regulatory pressure on the prices we charge customers and other telecoms companies;
• the proposed takeover of O2 by CK Hutchinson (the owner of Three), subject to regulatory approval; and
• Sky launching as an MVNO in 2016.

EE has a 32% share of the UK mobile market, on a revenue basis.

New organisational structure

From 1 April 2016 we changed how the former EE business was organised to manage it better within the group. Business mobile was transferred to Business and Public Sector; the wholesale operations were transferred to Wholesale and Ventures and the mobile network was transferred as a distinct business unit into TSO.

Following the reorganisation, the consumer-facing parts of EE will remain as a distinct line of business providing postpay, prepaid and fixed broadband services primarily to consumers. The EE line of business will also support the Emergency Services Network contract awarded to EE in December 2015.

Markets and customers

The mobile market is very competitive, with over 85m connections*, served by four mobile network operators and numerous mobile virtual network operators (MVNOs).

Our main competitors are O2, Vodafone, Three, Tesco Mobile and Virgin Media. Competition for customers is increased by third party distributors selling mobile services on behalf of the mobile operators, from high street shops and online.

Around 93% of adults in the UK have a mobile phone, and 15% of adults live in mobile-only households. Two-thirds of adults in the UK use a smartphone, and over 54% of homes also have a tablet. Increasingly, people are using their mobiles to access the internet, listen to radio and watch TV. According to Ofcom, 60% of mobile connections are on postpaid tariffs.

Mobile revenue UK market share by operator

At 31 December 2015

<table>
<thead>
<tr>
<th>Operator</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesco Mobile</td>
<td>4%</td>
</tr>
<tr>
<td>Virgin Mobile</td>
<td>3%</td>
</tr>
<tr>
<td>Three</td>
<td>12%</td>
</tr>
<tr>
<td>EE</td>
<td>32%</td>
</tr>
<tr>
<td>Vodafone</td>
<td>25%</td>
</tr>
<tr>
<td>O2</td>
<td>24%</td>
</tr>
</tbody>
</table>

*September 2015.

Inputs, outputs and outcomes

Inputs

We have 12,800 people, with 43% directly helping our customers through our shops and contact centres.

We have an extensive 2G and 3G network and provide the UK’s fastest 4G network covering over 96% of the population.

Outputs

We offer a wide range of mobile services to the consumer and business markets, in addition to supporting over 30 MVNOs and selling fixed broadband products.

Our new My EE app is helping to improve customer experience.

Outcomes

We’re the largest mobile operator in the UK, rated as the best network in independent testing.

In the Sunday Times Best Big Companies to Work For 2016 awards, EE reached number seven, up from 13 in the 2015 awards.
Products and services

We provide mobile services in the UK, covering up to 99% of the population with 2G, 98% with 3G and over 96% with 4G technologies. We also have an extensive wholesale segment, connecting MVNO customers and machine-to-machine devices. Broadband services, fixed-voice and a TV service are also sold under the EE brand.

Postpaid

New consumer customers, and those who renew their contracts with us, are put on 4G tariffs. If the tariff includes a handset, the contract is typically for 24 months. The tariff will include a bundle of monthly voice, SMS and data use. Prices vary with the size of the bundle, the device type and 4G speed. The tariffs are split into three main groups:

- **EE Regular** gives access to standard 4G services, unlimited texts and tiered bundles of voice and data use;
- **EE Extra** provides access to the double-speed 4G network, has double the data allowances of EE Regular and includes European roaming and international calling benefits; and
- **EE Complete** which provides the benefits of EE Extra together with the option to upgrade the handset every 12 months.

Prepaid

Prepaid customers buy a phone and then add a ‘pay-as-you-go’ pack of 4G use. The packs are split into three groups:

- **Everything packs** for unlimited texts and tiered bundles of voice and data use over a 30-day period;
- **Talk and text packs** for tiered bundles of voice and text use over 30 days; and
- **Data packs** ranging from 1GB to 4GB over seven to 30-day periods.

Prepaid customers are encouraged to buy packs on a regular basis by rewarding three months of consecutive purchases with extra data, voice or text use.

Business

We also sell 4G mobile services to business customers.

- **Small business plans** (up to 50 employees) are for 12 or 24 months, and most come with unlimited voice and text use. Options include the ability to share data allowances across a number of devices, access to double-speed 4G and inclusive overseas roaming.
- **Large businesses** (more than 50 employees) and public-sector organisations can choose from a wide range of standard and customisable plans. Customers can bundle in tiered levels of mobile security. If required, we also install equipment to improve mobile coverage inside customer premises. We also offer an extensive range of fixed-line and data services, including voice, private telephone network integration, leased lines and VPNs to provide customers with their complete communications needs.

Devices

We offer a wide range of 4G mobile phones, tablets and mobile broadband devices. Customers may also choose to bring their own device and then connect using a SIM-only plan.

Wholesale

Over 30 MVNOs, including Virgin Mobile, use our mobile network. We’re also active in the machine-to-machine (M2M) market, with a tiered range of products.

With Enterprise Messaging, our bulk messaging range of products, organisations can send large volumes of text messages to customers or employees.

Broadband and TV

We sell fixed-voice, broadband (including superfast fibre broadband) and TV services. To encourage take-up, our postpaid customers get larger data allowances if they also buy EE broadband.

EE TV provides more than 70 free channels simultaneously on up to four devices, and access to pay-TV channels. The EE TV set-top box comes with one terabyte of memory and can be controlled from a mobile phone or tablet using the EE TV app.
Performance in the period

Revenue for the two months from 29 January 2016, when EE was acquired by the BT Group, to 31 March 2016 was £1,055m with an EBITDA margin of 25%. We had 30.6m total connections at the end of the year and our 4G customer base reached 15.1m.

Examples of how we’re broadening and deepening customer relationships

- We’ve developed and promoted our My EE app to help customers manage their EE account wherever they are.
- We extended our 4G network coverage to over 96% of the population.
- In April 2016 we started trialing online appointment booking in a selection of our shops, so customers can book sales and service appointments directly from our website.
- We’ve continued to bring customer service roles back to the UK, and in April 2016 we announced plans for 100% of EE customer calls to be handled in the UK by the end of 2016.

Operating performance

At 31 March 2016 we had 30.6m connections. We’ve shown how these are broken down below.

<table>
<thead>
<tr>
<th>Customer base by type</th>
<th>000</th>
</tr>
</thead>
<tbody>
<tr>
<td>MVNO</td>
<td>3,720</td>
</tr>
<tr>
<td>Fixed broadband</td>
<td>951</td>
</tr>
<tr>
<td>M2M</td>
<td>2,272</td>
</tr>
<tr>
<td>Prepay</td>
<td>8,251</td>
</tr>
<tr>
<td>Postpay</td>
<td>15,411</td>
</tr>
<tr>
<td>of which 4G</td>
<td>15,148</td>
</tr>
</tbody>
</table>

Our postpay base grew by 54,000 to 15.4m, supported by a strong performance in the large business segment with new customers including Arriva Trains. The prepay base continued to decline, in line with industry trends, partly as customers move to postpay.

The machine-to-machine base grew 77,000 to 2.3m as the Internet of Things market starts to grow.

Fixed broadband was up 11,000 to 951,000, supported by EE TV, in a competitive market.

Our base of MVNO customers stood at 3.7m, up 28,000, as our MVNO partners continued to do well in the mobile market.

Customer base movements* (Period from the acquisition of EE on 29 January 2016 to 31 March 2016.)
Deliver superior customer service

Improving customer service is a key priority. While we have made steady progress, there is still room for improvement, as shown by the number of complaints our customers make to Ofcom.

In the period we accelerated work on projects across four key areas:

- **Call centres.** Transforming service for our customers, reducing complaints and customers’ propensity to call;
- **Self service.** Increasing take-up of the My EE app and improving online service;
- **Shops.** Improving service and providing more digital capabilities in store; and
- **IT.** Improving customer-facing IT systems.

As part of our ambition to offer the best mobile customer service in the UK, we’ve started the ‘Omnichannel’ initiative, to provide a consistent experience for our customers, regardless of how they interact with us. This will enable us to give customers better, more relevant offers, follow up on potential sales quickly and effectively and support customers more proactively.

Transform our costs

Since EE was formed in 2010 it has gone through a process of transformation as the legacy Orange and T-Mobile businesses were combined. We’ve removed duplication from the mobile network, shops and support functions to drive profitability. We expect to continue to drive efficiencies as we integrate EE’s business into the wider group and share our ideas, experience and methodology.

Invest for growth

We have the best mobile network in the UK, having been named number one network by RootMetrics and recognised as the UK’s fastest network by Speedtest.net.

We’ve made 4G voice calling more widely available, bringing it to Manchester and Birmingham. The increased network coverage and resilience required for the Emergency Services Network contract will also benefit consumer and business mobile customers.

Financial performance

<table>
<thead>
<tr>
<th>From 29 January to 31 March</th>
<th>2016 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>External revenue</td>
<td>1,038</td>
</tr>
<tr>
<td>Internal revenue</td>
<td>17</td>
</tr>
<tr>
<td>Total revenue</td>
<td>1,055</td>
</tr>
<tr>
<td>Operating costs</td>
<td>794</td>
</tr>
<tr>
<td>EBITDA</td>
<td>261</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>176</td>
</tr>
<tr>
<td>Operating profit</td>
<td>85</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>111</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>310</td>
</tr>
</tbody>
</table>

Revenue for the two months since acquisition was £1,055m. This consisted of mobile service revenue of £913m, fixed and wholesale revenue of £89m and equipment sales of £53m.

This also includes revenue of £17m which is internal, reflecting trading with other lines of business within the group. Monthly mobile ARPLs in the period were £26.7 for postpaid customers, £3.9 for prepaid and £18.6 on a combined basis.

Operating costs were £794m giving EBITDA of £261m, a margin of 25%.

Capital expenditure was £111m as we extended 4G coverage to over 96% of the UK population. Preparation for the Emergency Services Network contract continued in line with agreed milestones.

Operating cash flow, which excludes interest and tax, was £310m benefiting from the timing of working capital.

Key priorities

Over the coming year we plan to further integrate the new EE line of business into the group, in line with the reorganisation that took effect from 1 April 2016, and begin to realise the revenue and cost synergies associated with the acquisition. We also plan to broaden and deepen our customer relationships by:

- improving the customer experience;
- extending 4G coverage and aiming to remain the UK’s best quality mobile network;
- progressing the build phase of the Emergency Services Network contract, working closely with TSO; and
- launching a range of combined mobile, fixed-line and TV products.
BT Wholesale

We provide network products and services to Communications Providers (CPs) operating in Great Britain. We also offer services for media companies and broadcasters.

We do this by combining BT’s core network and IT platforms with Openreach’s access products. We add our own expertise in designing, building and supporting new products and bespoke solutions. We can then offer a range of services that complement our customers’ own capabilities. This means we can share in their success.

We’re structured around our customers: mobile and fixed network operators; resellers; and media organisations and broadcasters. Our largest customers are supported by dedicated client teams, while others are served by a desk-based sales force. All are supported by expert product managers and customer service agents.

Outside Great Britain, BT serves CPs through BT Ireland and BT Global Services. BT remains Europe’s largest wholesale telecoms provider.

Inputs, outputs and outcomes

Inputs
We have 1,300 people, of whom 89% are customer-facing.
We take advantage of the scale, reach and reliability of BT’s networks and platforms.
We bring BT’s R&D resources to bear on our customers’ business issues.

Outputs
We supply wholesale telecoms products including voice, broadband, Ethernet and hosted services. We also provide bespoke managed solutions.
We invest in new services for the wholesale market, such as our Hosted Communications Services and 4K video transport.

Outcomes
We take a share of the market which BT does not serve directly.
This year our share represented around 11% of BT’s revenue.
A more competitive market for communications services drives greater customer choice.

Markets and customers

We serve over 1,400 CPs, including: the major consumer brands Sky, TalkTalk and Virgin Media; the mobile operators, O2, Three and Vodafone; overseas CPs operating in the UK; and other service providers such as Daisy Group and KCOM Group. We also provide specialist media and broadcast services to major organisations including the BBC, Channel 4, ITV, Sky, SoftBank Corp. and Star TV.

Our main competitors are Virgin Media, TalkTalk and Vodafone.

The main trends in the wholesale market this year were the continuing take-up of IP voice services and stronger demand for higher-bandwidth broadband networks.

Voice services: moving to IP

The number of calls made over traditional fixed networks fell by 10% this year, as calls moved to mobile networks or to instant messaging and other IP-based alternatives. And owners of these networks were able to charge less to carry such calls, as a result of price reductions imposed following Ofcom’s last Narrowband Market Review.

As businesses opt to make and receive calls over IP they are increasingly buying newer voice services such as SIP-Trunking and Hosted Voice. According to the Cavell Group, in 2015 the number of SIP Trunks (which connect a business’s switchboard to its IP voice service provider) grew by 31%. And users of Hosted IP Voice (which eliminates the need for a switchboard altogether) grew by 30%.

New organisational structure

From 1 April 2016 we’re integrating BT Wholesale, EE’s wholesale team and some of BT’s smaller business units into a new Wholesale and Ventures line of business. The smaller business units include BT Directories and BT Fleet, together with the majority of BT Redcare, BT Payphones and Tikit. They’re all described on page 65. The new organisational structure will give more visibility to these smaller but important enterprises while bringing together the wholesale businesses of BT and EE.
Products and services

BT Wholesale’s products and services either supplement CPs’ own capabilities or can be sold on to CPs’ own customers as they are. Where CPs need a more bespoke or comprehensive service, we combine our products with other components to create managed solutions.

Connectivity services: higher bandwidths

This year average usage over our wholesale broadband circuits rose by 40%. And 43% of all our broadband lines ordered this year use higher-speed fibre technologies. We expect this trend towards higher-bandwidth broadband to continue.

Broadband

We provide CPs with broadband connections between their core network and their customers. Wholesale Broadband Connect can serve 95% of premises with copper-based broadband (2014/15: 92%) and over 25m premises with fibre broadband. Our older broadband network brings our total coverage to more than 99% of all premises.

For CPs without their own network, we offer Managed Broadband. This includes the necessary connectivity and internet access together with full end-to-end service management.

Ethernet

We supply CPs with Ethernet connections linking their core network to their customers’ business premises. Ethernet services are continuing to replace Partial Private Circuits, a legacy connectivity service which we also offer.

With Wholesale Ethernet, CPs can reach 82% of business premises over copper-based circuits (2014/15: 81%) and more than 99% over fibre, at speeds of up to 10Gbps. This year we fully launched Wholesale Optical which extends those speeds to 100Gbps.

Our Managed Ethernet Access Service (MEAS) carries mobile voice and data traffic to and from mobile operators’ transmission masts, using a mix of copper, fibre and radio technologies.

Media services

Our long-established media network connects major locations around the world where broadcast or film content is created or distributed. In the UK it carries all of the nation’s digital terrestrial TV, as well as TV broadcasts from more than 150 sports and news locations. Local partners help us link TV stations to major sports venues worldwide.

We also offer related media services such as content playout (in which we send finished TV content off to be transmitted) and media file acceleration and security.

Voice calls

CPs use our IP Exchange (IPX) platform to carry their customers’ voice calls beyond the reach of their own voice network. IPX delivers calls between CPs’ networks, or to their final destination, translating between the many different network technologies that may be used along the way. IPX is now used by over 150 CPs, including most of the UK’s biggest operators.

As voice moves to IP, IPX is gradually replacing our equivalent products based on older Time Division Multiplexing (TDM) technology. These products include Transit, Direct Conveyance and International Direct Dial.

For CPs without their own voice network, we offer BT Wholesale Calls which routes calls for them end to end. The CP maintains the customer relationship through its own sales, customer service and billing operations.

Hosted communications

Our Hosted Communications Services portfolio enables a CP to offer a range of services without having to develop, maintain and upgrade them itself.

Traditionally, businesses have made and received calls over phone lines via a switchboard. Wholesale Hosted Centrex, a hosted voice service, moves the switchboard capability into BT’s network. And Wholesale SIP-Trunking delivers the calls over broadband. When put together, the business no longer needs to house and maintain a switchboard or rent separate phone lines.

In the same way, our Hosted Contact Centres replace the systems and services usually needed to handle inbound or outbound customer calls at scale. In partnership with Avaya Inc. we offer Avaya Cloud Solutions, a hosted and fully-integrated contact centre service with end-to-end service-level agreements.

Managed solutions

We combine our products with third-party components and our own professional services to create managed solutions that solve specific customer or industry problems.

For example, this year we implemented new ‘small cell’ solutions at a number of mobile transmission sites. These solutions can include the electronic equipment at a site, the network to the site, the site itself and end-to-end service management. They can help mobile operators improve their coverage in rural areas or provide more capacity in urban locations.
**Performance in the year**

Underlying revenue excluding transit rose by 1%, reversing the falls of the previous three years. But EBITDA fell by 3% (2014/15: 9%) reflecting a changing volume and product mix across our product portfolio.

We signed fewer orders this year but saw a substantial uplift in sales of our strategic growth products: Ethernet, Hosted Communications Services and IPX. Customer satisfaction continued to rise as a result of investments in self-service systems and tools.

**Examples of how we’re broadening and deepening customer relationships**

- We’ve expanded our portfolio, so we can meet a wider range of customer needs. For example, Wholesale Optical enables CPs to connect sites over very high-bandwidth connections.
- In our Media & Broadcast business, new partnerships have enabled us to reach more customers and offer more services. New partners this year include Aspera, Deluxe, Intelsat, Megahertz and SoftBank Corp.
- We’ve extended our network coverage, so we can provide service more cost-effectively across a wider area.
- We’ve made it easier for CPs to do business with us, for example by adding new features to our online service portal.
- We’ve invited customers to joint strategy and planning events at BT’s research facility at Adastral Park.

“BT Wholesale continues to lead the local market as a provider of wholesale connectivity, communications, and media services, and... continues to invest in relevant areas, including 4K video and optical transport.”

Current Analysis, October 2015.

**Operating performance**

This year we signed £1.5bn of orders. This was down around £400m on last year’s order intake, but up around £150m excluding orders signed with EE, which is now part of BT. We signed deals for a wide range of services, including:

- Wholesale Hosted Centrex and SIP-Trunking for a large CP to resell, replacing their own platform;
- the supply and maintenance of vehicles to support the new Emergency Services Network contract within EE;
- a national broadcast network for the BBC (see page 83);
- MEAS circuits to connect a mobile operator’s new cell sites to its core network;
- IPX for three major CPs and for a smaller IP voice specialist, enabling it to close its old voice network; and
- a video multiplexing solution for a major US-based media company.

We also signed up seven new channel partners to sell our Avaya Cloud Solutions portfolio.

IPX carried 26bn UK-originated voice minutes in the year, up 41%.

Several major CPs joined the platform, increasing the value of the service to other users.

The total number of broadband lines we provide on a wholesale basis grew for the first time in many years. This reflected a slowdown in the LLU network rollout of large broadband providers as well as our own success in selling both fibre and copper broadband to smaller CPs.

The total number of wholesale Ethernet lines we provide grew too, by 23%, mainly as a result of targeted pricing initiatives, network expansion and migration from Partial Private Circuits. We also connected more MEAS circuits.

Despite fierce competition, the number of our SIP Trunks nearly doubled. And the number of our Hosted Centrex users tripled, driven in part by new pricing options.
Initiatives in three main areas drove the improvement in customer satisfaction:

- **Product reliability.** We gave CPs new tools to help them improve the stability of broadband lines. We also made it easier for them to identify problems in their customers’ own home wiring and equipment. CPs reported 7% fewer broadband faults as a result. And the reliability of our Ethernet circuits improved by 11% as new diagnostic tools meant we could identify and fix problems in our network before CPs even noticed them.

- **Customer updates.** We kept our CP customers better informed on the progress of their orders and any faults. This meant they could keep their own customers more up to date. Customer satisfaction in this area rose by six percentage points.

- **The online experience.** We made it easier to do business with us by adding new features to Business Zone, the online service portal which we launched last year.

Improvements in both our resourcing and the delivery process itself contributed to strong growth in our Ethernet base this year. But delivering Ethernet circuits on time proved more challenging, because a higher proportion needed new fibre or ducting to be laid.

### Transform our costs

This year we focused our cost transformation activities on:

- reducing selling, general and administrative costs, which were 11% lower than last year;
- renegotiating our supplier contracts and reducing the number of suppliers we use; and
- rationalising legacy platforms and networks and removing underutilised infrastructure.

### Invest for growth

New product launches included Media Move and Cloud Playout, two new services for the media and broadcast industry. We also fully launched Wholesale Optical (after a soft-launch last year) which offers high-bandwidth data connectivity. We enabled Wholesale Hosted Centrex and Skype for Business to work together. This means Skype users can get all the features of our Centrex platform, such as the ability to call people who are not on their corporate network.

Wholesale Broadband Connect and Wholesale Ethernet are now available from more exchanges. And we migrated our IPX customers onto a new, larger platform.

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“BT Wholesale is unmatched in terms of breadth of offerings and its abilities to deliver managed and outsourcing services.”

Current Analysis, October 2015.
### Financial performance

<table>
<thead>
<tr>
<th></th>
<th>2016 £m</th>
<th>2015 £m</th>
<th>2014 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,086</td>
<td>2,157</td>
<td>2,422</td>
</tr>
<tr>
<td>Underlying revenue excluding transit</td>
<td>1%</td>
<td>(7)%</td>
<td>(13)%</td>
</tr>
<tr>
<td>Operating costs</td>
<td>1,544</td>
<td>1,596</td>
<td>1,808</td>
</tr>
<tr>
<td>EBITDA</td>
<td>542</td>
<td>561</td>
<td>614</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>212</td>
<td>224</td>
<td>245</td>
</tr>
<tr>
<td>Operating profit</td>
<td>330</td>
<td>337</td>
<td>369</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>177</td>
<td>210</td>
<td>244</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>404</td>
<td>278</td>
<td>372</td>
</tr>
</tbody>
</table>

Revenue was down 3% compared with an 11% decline last year. This included £82m or 51% less transit revenue than in the prior year.

Our key measure, underlying revenue excluding transit, was up 1% compared with a decline of 7% last year. This reflects growth in IP services and managed solutions, partly offset by a decline in our legacy products. IP services revenue was up 25%, helped by 41% higher IPX volumes and a 23% increase in Ethernet connections. Managed solutions revenue grew 3% and accounted for 39% of total revenue, up from 37% last year.

Calls, lines and circuits revenue fell 14%, mainly because of lower volumes and customers switching to newer IP technologies. Broadband revenue was 12% lower, but this was an improvement on last year’s decline of 17%. While migration to LLU continues to reduce the size of our copper broadband base, fibre broadband volumes have increased, reflecting demand across the market.

Following the Supreme Court judgment on ladder pricing in July 2014, we recognised around £15m of ladder pricing trading revenue this year (2014/15: around £30m). This is in addition to revenue treated as a specific item relating to prior years, as explained on page 187. We do not expect to include any further trading revenue relating to ladder pricing in the income statement next year, because we stopped pricing on that basis in July 2015.

Operating costs decreased 3%. Underlying operating costs excluding transit increased 2%, with the cost of delivering more IP services only partially offset by continuing cost transformation activities.

EBITDA declined 3%, reflecting the one-off impact of lower ladder pricing revenues as well as the continuing migration to lower-margin IP services. But this was an improvement on last year’s 9% decline. Depreciation and amortisation was down 5% (2014/15: 9%) and operating profit fell 2% (2014/15: 9%).

Capital expenditure was 16% lower than last year (2014/15: 14%), driven by lower spend on sustaining our legacy voice network, and as last year included some investments in efficiency programmes. Working capital was helped by better collections contributing to a 45% increase in operating cash flow.

### Key priorities

Next year we’ll be part of the new Wholesale and Ventures line of business, as explained on page 80. Our priorities will be:

- integrating the various business units and their teams;
- creating revenue and cost synergies, for example by selling EE’s mobile services to BT Wholesale customers;
- continuing to improve customer experience, especially in Ethernet delivery;
- further expanding our Ethernet network, making it available from more BT exchanges and more third-party datacentres;
- increasing the number of customers using fibre rather than copper broadband;
- further strengthening our defences against attempted cyber-attacks and fraud; and
- continuing our cost transformation activities.

We’ve also set ourselves some specific ambitions within the next three years:

- to grow the number of Ethernet circuits we provide by 50%;
- to increase the number of MVNO brands on 4G from less than 5% to at least 80%; and
- to deliver all our products on time at least 95% of the time by the end of the period.
Openreach

Openreach looks after the 'last mile' of the UK communications network which runs from the local exchange to people's homes and businesses. The network is made up of exchanges, copper and fibre cables, underground ducts, street cabinets, telephone poles and distribution points. We provide access to our network to all CPs on equivalent terms which means the same products, prices and levels of service.

Our CP customers use our network to deliver services ranging from broadband, television and telephony for the home, to high-speed data connections for businesses of all sizes.

Openreach local access network

Inputs, outputs and outcomes

Inputs
We've a UK workforce of 31,500 people.

We install and maintain fibre and copper communications networks that connect homes and businesses. Our network is nationwide, reliable and fast.

Our customers are the 560+ CPs who deliver communications services to end customers, and property developers building new homes and buildings. We also have relationships with communities throughout the UK that co-fund investments in fibre networks with us.

Outputs
A team of highly-skilled network engineers and planners maintains a high quality access network.

We provide network access and engineering services which enable products including broadband and point-to-point Ethernet.

We have 21,000 iPhones in use by our engineers. New and improved applications are helping them to complete jobs faster and provide feedback on task times meaning work can be handed out more efficiently.

Outcomes
Fibre broadband has driven growth in our revenue and profits, supporting further investment in the network.

Our brand has been strengthened by the successful rollout of fibre to around 85% of the UK. This puts us on track to support the Government's target of 95% superfast coverage by the end of 2017. We've exceeded Ofcom's minimum service targets for the past two years.

The UK has the highest share of GDP generated by the digital economy of any country in the G20. Openreach underpins that by running the largest superfast network in the country.

Openreach 10th birthday facts

We celebrated our 10th birthday this year. Our network has grown substantially since Openreach was established in January 2006. Since the start of our fibre broadband rollout in 2009, our engineers have worked 10m hours and driven 72m miles to complement and extend our existing infrastructure – the copper wires and telephone poles that are a familiar sight in many streets. Our fibre broadband network now reaches more than 25m premises. In 2006:

- the average broadband speed was 1.6Mbps, today it is more than 28Mbps;
- consumer fibre access products didn't exist. Today we have more than 5m connections;
- a new WLR connection cost £88 with a £100 rental charge in the first year. Today it's £41.55 with an £89.50 annual charge. A 30% reduction in year one costs;
- there were 41,000 LLU lines. Now there are around 10m;
- we had 1,000 Ethernet connections, today we have over 200,000; and
- 50% of the country had a broadband connection. Today that's risen to around 80%.

Markets and customers

We have more than 560 CPs using our network. We operate in three markets: consumer, business and infrastructure.

- The consumer market is made up of households who want fixed-line broadband and telephony services. Our largest customers include Sky, TalkTalk and BT Consumer.
- The business market consists of the 5.4m businesses in the UK, from sole traders to large multinational corporations, and the public sector. Most of our CP customers serve business clients.
- The infrastructure market includes firms building network infrastructure to data centres and mobile cell sites, and property developers connecting new build sites. Ethernet connections and specialised services are the main areas of demand.

The total number of Openreach physical lines was essentially unchanged during the year, growing by 2,000 lines, against a 200,000 increase the year before.

As at 31 December 2015 there were 24.5m broadband lines in the UK. 81% of these use the Openreach network with the rest mainly on the Virgin Media cable network.

Total UK broadband market

As at 31 March

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lines</td>
<td>20.9</td>
<td>21.9</td>
<td>22.9</td>
<td>22.9</td>
<td>23.9</td>
</tr>
</tbody>
</table>

*a As at December 2015. Source: Company data.
Our markets are shaped by the following trends:

- demand for connectivity means total fixed broadband ownership is rising steadily;
- increasing data usage, propelled by video streaming and content, is driving demand for faster connections with more capacity;
- rising data consumption is leading to significant investment in backhaul capacity;
- cloud computing is increasing corporate demand for connectivity.

A fast-growing data centre market is creating a new need for high-capacity circuits (1Gbps or more); and
- strong demand for Ethernet and optical service products, as businesses seek increased speeds and reliability.

Competitors
Our main competitor across all three of our markets is Virgin Media. Its cable network covers around half of UK homes, with plans to reach an additional 4m premises by 2020.

For consumers, other companies are building their own fibre access networks, reflecting the competitive nature of the market. CityFibre, Hyperoptic and Gigaclear are deploying fibre-to-the-premises. In particular, CityFibre’s joint venture with TalkTalk and Sky has the potential to pose a competitive threat.

Competitors in the business and infrastructure markets include Virgin Media, Colt Group and Vodafone. CityFibre’s prominence in this market is growing with plans to cover 50 ‘Gigabit cities’ by 2020. It also acquired KCOM’s UK infrastructure in the year.

Pricing, service delivery and product innovation remain competitive themes. The ‘price per Gigabit’ is being driven down by intense competition, particularly in urban areas. Strong demand for Ethernet has put pressure on the delivery times of all providers.

Products and services
We offer four main products and services: fibre access; copper-based services; Ethernet; and infrastructure solutions. Our access network can carry broadcast and on-demand internet protocol television (IPTV) services. Our multicast service cuts the cost of delivering broadcast TV.

Fibre access
Our wholesale fibre product is called Generic Ethernet Access. We offer a number of different versions:

- Fibre-to-the-Cabinet (FTTC) takes fibre from the exchange to the street cabinet and uses the existing copper network for the final link to the customer. FTTC offers speeds from 40Mbps to 80Mbps. This year we launched a mid-range product offering speeds of up to 55Mbps.
- Fibre-to-the-Premises (FTTP) provides speeds up to 330Mbps. The fibre runs from the exchange to the property.
Performance in the year

We’ve grown our revenue for the first time in four years. We made our superfast fibre broadband network available to a further 3m premises. We achieved record fibre broadband net additions of 1.7m. We grew Ethernet connections by 17%. And we achieved all the increased minimum service levels set by Ofcom, though our ambition and plans are to go much further.

Examples of how we’re broadening and deepening customer relationships

- We announced the Openreach Charter to set out our commitments in building Britain’s connected future.
- We’ve improved customer service and complaints have almost halved, though we recognise we have more to do.
- We’ve successfully launched the ‘View My Engineer’ service to keep end customers up to date on their orders or any faults, and to remind them of their upcoming engineer visit.

Operating performance

We continue to invest heavily in our superfast fibre broadband network. It now reaches more than 25m premises or around 85% of the UK. Including other service providers, 90% of the UK is able to enjoy fibre broadband speeds.

Under the BDUK programme we’re investing alongside public funding to bring fibre broadband to rural communities. We’re also working with the government through the Superfast Extension Programme (SEP) to help take fibre broadband to 95% of the country by the end of 2017.

We achieved 1.7m fibre broadband net additions in the year. This means that around 5.9m homes and businesses in the UK are now connected, 23% of those passed. Of the net additions in the year, 48% were provided to our external CP customers, an increase from 40% last year, demonstrating the market-wide demand for fibre.

The number of Ethernet circuits we provide grew 17% in the year; this is the best growth for five years. The physical line base increased by 2,000.

Deliver superior customer service

As the internet has become a must-have, customers expect more from the service we provide and we’re committed to meeting those increasing needs.

The table on page 88 shows Openreach’s service performance on a number of key measures. We publish this data, with additional levels of detail, on a quarterly basis.

We continue to deliver 93% of orders on time. We met all 60 of Ofcom’s minimum service levels (MSLs) for copper products for the second year in a row. These service levels become more stretching each year and next year will expand to cover Ethernet products for the first time.

Despite having achieved the MSLs our key customer service measure, Right First Time, declined 6.9% (2014/15: 3.5% improvement). We view the MSLs as a baseline and recognise we have more to do to deliver the service customers expect. This is why we set ourselves a more challenging RFT target.

There are a few areas in particular, along with the severity of the winter storms, that contributed to the decline in RFT. In the business market we haven’t reduced the backlog of Ethernet circuits in line with our plans. For residential customers we have too many jobs that aren’t completed on time which is partially due to our engineers missing appointments. We have a plan in place to tackle many of the issues that caused us problems this year. We’re improving Ethernet delivery processes to complete jobs faster and we’re focusing on reducing missed appointments.

One area of improvement was the backlog of new property developments waiting for a network connection. Over the year we reduced the number of people waiting more than 30 days for service after moving into a new home by 96%.

In the coming year our goal is to make sure people are connected on the day they move. We also recognise that most people moving into a new home expect to have access to fibre broadband and we launched a co-funding scheme with the Home Builders Federation to make sure all new builds have fibre available.

This can be found at: www.homeandwork.openreach.co.uk/OurResponsibilities.aspx
The Openreach Charter

In September 2015 we announced the Openreach Charter to set out our commitments – to end customers, CPs and the nation – in building Britain’s connected future. The most important commitments have been updated and are summarised below.

Service
Our number one priority will be giving great service to customers. We’ll set new standards for delivering on time and getting things right. We hold ourselves accountable to fix problems.

Coverage
We aspire to go beyond the UK Government’s 95% target for fibre broadband. With new initiatives and new technologies, we’ll keep working to get Britain connected.

Speed
We’ll provide the speed people need, and create Britain’s ultrafast future with our ambition to bring ultrafast broadband to 12m homes and businesses by the end of 2020.

Trusted partner
We’ll be a trusted partner for CPs, guaranteeing fair and equal treatment to all.

Contribution to our community
We’ll make a difference to the communities we serve, inspiring our people to become volunteers in the community.

Investment
We’ll invest to sustain the leadership of Britain’s digital economy.

Openreach performance against service responsibilities

<table>
<thead>
<tr>
<th></th>
<th>Movement</th>
<th>2015/16</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New lines installed on time</td>
<td>[2]</td>
<td>93.36%</td>
<td>92.98%</td>
</tr>
<tr>
<td>Average time to install with an engineer (working days)</td>
<td>↓</td>
<td>14.44</td>
<td>13.46</td>
</tr>
<tr>
<td>Average time to install without an engineer (working days)</td>
<td>↓</td>
<td>9.49</td>
<td>9.77</td>
</tr>
<tr>
<td>Installation requiring an engineer where wait is 22 days or longer for appointment</td>
<td>↓</td>
<td>1.12%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Average time for first available appointment date for new installation (working days)</td>
<td>↓</td>
<td>8.51</td>
<td>6.70</td>
</tr>
<tr>
<td>New lines requiring an engineer visit not installed 31 days past target date</td>
<td>↓</td>
<td>1.34%</td>
<td>1.23%</td>
</tr>
<tr>
<td>Average time to fix faults Maintenance level 1 (working days)</td>
<td>↑</td>
<td>2.82</td>
<td>2.67</td>
</tr>
<tr>
<td>Average time to fix faults Maintenance level 2 (working days)</td>
<td>↑</td>
<td>1.94</td>
<td>1.79</td>
</tr>
<tr>
<td>Faults fixed within agreed time Maintenance level 1</td>
<td>↑</td>
<td>74.53%</td>
<td>75.10%</td>
</tr>
<tr>
<td>Faults fixed within agreed time Maintenance level 2</td>
<td>↑</td>
<td>76.14%</td>
<td>75.66%</td>
</tr>
<tr>
<td>Faults not cleared after 31 days or more Maintenance level 1</td>
<td>↓</td>
<td>1.60%</td>
<td>0.86%</td>
</tr>
<tr>
<td>Faults not cleared after 31 days or more Maintenance level 2</td>
<td>↓</td>
<td>1.79%</td>
<td>0.84%</td>
</tr>
</tbody>
</table>

Business

<table>
<thead>
<tr>
<th></th>
<th>Movement</th>
<th>2015/16</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average time to install on-net services (working days)</td>
<td>↑</td>
<td>26.50</td>
<td>33.49</td>
</tr>
<tr>
<td>Average time to install where new build is required (working days)</td>
<td>↑</td>
<td>68.20</td>
<td>69.95</td>
</tr>
<tr>
<td>Faults fixed within agreed time</td>
<td>↑</td>
<td>94.26%</td>
<td>92.79%</td>
</tr>
</tbody>
</table>

Note: this compares the performance in the quarter and is not an annual measure.
### Financial performance

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>£5,100</td>
<td>£5,011</td>
<td>£5,061</td>
</tr>
<tr>
<td><strong>Operating costs</strong></td>
<td>£2,436</td>
<td>£2,411</td>
<td>£2,460</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>£2,664</td>
<td>£2,600</td>
<td>£2,601</td>
</tr>
<tr>
<td><strong>Depreciation and amortisation</strong></td>
<td>£1,301</td>
<td>£1,348</td>
<td>£1,406</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>£1,363</td>
<td>£1,252</td>
<td>£1,195</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>£1,447</td>
<td>£1,082</td>
<td>£1,049</td>
</tr>
<tr>
<td><strong>Operating cash flow</strong></td>
<td>£1,419</td>
<td>£1,502</td>
<td>£1,492</td>
</tr>
</tbody>
</table>

This is the first time in four years that Openreach has delivered revenue growth.

Revenue increased 2% (2014/15: 1% decline) mainly driven by a 39% increase in fibre broadband revenue. Higher Ethernet volumes also contributed to the revenue growth, but regulatory price changes had an overall negative impact of around £130m, equivalent to 3% of our revenue.

Operating costs were up 1% (2014/15: 2% down) mainly reflecting higher volumes, pay inflation and a £29m increase in leaver costs. There was also no benefit this year from the sale of redundant copper (2014/15: £29m). These effects were partly offset by cost efficiencies.

The main driver of the Openreach cost base is labour which makes up over £1bn of variable cost, after deducting own work capitalised. We reduced our labour costs by 7%, partly by creating our ‘centres of excellence’.

EBITDA grew 2% (2014/15: flat). With depreciation and amortisation down 3% (2014/15: 4%), operating profit was up 9% (2014/15: 5%).

Capital expenditure was £1,447m, up £365m or 34% (2014/15: up £33m or 3%). This consists of gross expenditure of £1,540m (2014/15: £1,460m) which has been reduced by grants of £93m (2014/15: £378m) directly related to our fibre broadband network build in the year. The total amount of grants recognised is lower than last year as we have deferred £227m of grant income due to strong levels of fibre broadband take-up. This is primarily because we increased our base-case assumption for take-up from 20% to 33% in BDUK areas and under the terms of the programme, we have a potential obligation to either re-invest or repay grant funding depending on factors including the level of customer take-up achieved.

Operating cash flow decreased 6% (2014/15: 1% increase) primarily reflecting the higher capital expenditure.

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### Key priorities

Following the appointment of Clive Selley as CEO, our future plans include:

- achieving our goal of 95% on-time installations by the end of 2017, which is ahead of Ofcom’s minimum service level;
- working with government to help take fibre broadband to 95% of the country by the end of 2017;
- getting ultrafast broadband to 10m premises, with an ambition to get this to 12m, by the end of 2020;
- recruiting 1,000 frontline engineers to deliver further improvements in service; and
- working to deploy FTTP using microfibre technology.
BT Technology, Service & Operations (BT TSO)

BT TSO is our internal technology unit and is responsible for delivering and operating our networks, platforms and IT systems.

We design, build and operate BT’s global networks and systems. And we make sure they’re reliable and resilient. We work closely with each of the lines of business, creating new products for them and making sure that services evolve with the changing needs of their customers.

We manage BT’s research and development and look at ways to differentiate BT through innovation. And we manage BT’s worldwide patent portfolio. We tell you more about that on page 36.

Given the rapid pace of change in the technology that BT TSO people work on, we’ve developed comprehensive training and re-skilling programmes. We’re also a major recruiter of UK graduates and apprentices. This is covered further on page 32.

In February Howard Watson replaced Clive Selley as CEO of BT TSO. Howard was previously responsible for leading BT’s global IT platforms. During this time we improved our levels of IT reliability every year.

New organisational structure
On 1 April 2016 we formed a new business unit called IT and Mobile which sits within TSO. It draws together EE’s mobile technology experts with the teams that manage BT’s IT platforms.

Products and services
We manage the infrastructure for BT’s products, services and internal systems, such as the voice, data and TV networks. Our people also design and deliver the large-scale global managed network services which we sell to many of the top companies in the world.

We deliver and run BT’s applications and IT systems, such as our customer management and HR systems. Our investments in these have simplified processes and improved the way our people interact with them.

To help improve customer service, we developed the My BT app. This means consumers can access their account, billing and order information from the convenience of their smartphone.

Inputs, outputs and outcomes

Inputs
There are around 13,000 people in BT TSO and this year we recruited over 200 graduates and apprentices.

Our global multi-protocol label switching (MPLS) network lets our lines of business launch products and services quickly and cost effectively.

This year we invested around £470m in research and development. We have research collaborations with over 30 universities around the world.

Outputs
We help create the products that BT’s lines of business sell to their customers.

Over 90% of BT TSO people have completed an accredited learning course.

This year we filed patents for 97 inventions.

Outcomes
We’re ranked as one of the 50 most innovative companies in the world.

34% of our people volunteered this year.

We’ve reduced the group’s total worldwide net CO₂e emissions by 81% versus 1996/97 baseline levels.

Performance in the year

We’ve continued to proactively maintain and refresh the technology in our networks and service platforms.

New features have been added, improvements made to network reliability and older technology removed. For example, we installed higher capacity and more cost-effective routers for our MPLS network. You can read more about this and other network enhancements on page 35. And we’ve continued taking equipment out of our legacy networks. For example, this year we turned off around 600 PSTN switching elements that we no longer need.

We’ve improved the reliability of our IT systems. This has resulted in 39% fewer IT faults. We’ve also continued to reduce our costs and the group’s energy consumption, which we say more about on page 44.

Key priorities

Our future plans include:

• developing technology solutions that help our customers, such as increasing the broadband speeds we can provide homes at the end of long copper lines;

• moving from a technology trial to a live consumer trial of an all-IP voice service;

• continuing to invest in our TV platform, improving the customer experience of our set-top box and investigating new technologies such as High Dynamic Range for better picture quality;

• continuing to evaluate technologies such as Software-Defined Networks that will enhance the cloud-based services that we offer to businesses; and

• continuing our network rationalisation.
Case study: Programmable networks

We’ve started on our journey to achieve a fully programmable network.

New technologies such as Network Functions Virtualisation (NFV) and Software-Defined Networks (SDN) mean we can run specialist network functions on standard hardware and control network components using software. We’ve led the industry in researching the benefits of these technologies since 2011, as we believe they will help enterprise customers reduce complexity and cost, and be more agile.

From idea to reality

We’ve worked with standards bodies and vendors to define how these should work. And in December 2015, we worked with BT Global Services to introduce NFV capabilities into its BT Cloud Connect portfolio. A multinational customer is already using this technology to provide a virtualised wide area network acceleration function, using standard data centre hardware rather than specialist equipment.

And we’re moving beyond the data centre. We’re running customer trials to virtualise routers and firewalls and to support cloud services such as Office 365. In the future, 5G networks will use NFV. And we’ll be able to use it in our TV network to distribute content.

All of this should make our network cheaper to build and simpler to operate.
Case study: Evolving our IP network

Over recent years, the needs of our customers have evolved from PSTN services, leased lines and early mobile data services to superfast broadband, TV, mobile data and Ethernet data services. Our network now supports a wide range of over-the-top applications and services, which require increasing bandwidths. For example, over the last four years Netflix traffic has grown from nothing to 20% of the data we carry. And broadband traffic has grown at around 50% a year.

This year we completed a three-year core broadband network evolution programme to ensure that our single IP network supports these services, and provides improved performance and reliability. During this time we’ve:

- introduced new core routers that provide five times the capacity of the ones they replaced, helping us to meet future data growth;
- optimised our network to efficiently route traffic by removing network 'hops' and increasing content caching within our network, speeding up access to the internet;
- introduced three new, highly-resilient internet service nodes for our consumer broadband traffic which are located to minimise internet delay for our customers;
- deployed over 850 Multi-Service Edge network components that each support multiple services such as broadband, Ethernet and internal connectivity between different layers of the network; and
- introduced a lower-cost Ethernet router suitable for smaller exchanges.