Purpose and strategy

Our strategy is founded on broadening and deepening our customer relationships. Improving our customer service is a key part of this. Transforming our costs gives us the oxygen to invest in our networks and in the products and services our customers want. This is explained in the following pages.

The section starts with an introduction from our Chief Executive.

Our purpose
Our purpose is to use the power of communications to make a better world.

Our goal
Our goal is to deliver sustainable profitable revenue growth. This will support cash flow growth over the long term, which we will use to reward our shareholders and other stakeholders.

Our culture
We want to build and sustain a culture that helps us respond quickly and effectively to changes in our markets.
Chief Executive’s introduction

2015/16 has been a landmark year for us.

Our lives and work are now built around connectivity – and our expectations are constantly rising. Our customers’ demand for data is increasing exponentially, and we want to be able to access files, stream entertainment or use applications wherever we are, on any device, seamlessly.

I’m proud that it’s BT’s networks, products and services that lead the way in many of these areas. And our strategy of innovation and investment has helped, and will continue to help us lead and shape the digital future in the years to come, and to broaden and deepen relationships with our customers.

This year we’ve brought EE into the BT family. By bringing together the UK’s best mobile network with the best fixed network, it puts us in a great position to meet the growing demand from UK consumers, businesses and the public sector for converged digital services.

The integration of EE is going well and we now see the opportunity to deliver more synergies than we originally expected, and at a lower cost. The acquisition has also allowed us to refresh our organisational structure, with a sharper focus on serving customers both in the UK and internationally.

We’ve also passed a number of landmarks on our fibre investment. Over 25 million premises can now get superfast broadband – around 85% of the country – and we’re on track to help take coverage to 95% and beyond.

This year has also seen us develop a range of exciting new products, services and content. We’ve grown our TV business by around one-third this year alone. It’s benefited from the halo effect created by BT Sport, as well as from other investments we’ve made in this area such as the exclusive launch of AMC.

I’m very pleased with how customers have responded to our UEFA Champions League and UEFA Europa League content, with BT Sport audiences up 45% this year. And we broadcast the UK’s first ever live matches in Ultra HD.

Our aim to become a fully converged service provider will allow us to create and deliver a whole new generation of products and services. It will provide a foundation for all areas of our business, deliver for our customers and generate huge opportunities in the years ahead.

Our commitment to using the power of communications to make a better world, and to making sure we’re always broadening and deepening our customer relationships, means we’re confident that BT will remain right at the heart of what’s to come – delivering significant value for our customers and employees, for our shareholders, and for society.

Gavin Patterson
Chief Executive
4 May 2016
Our purpose

Our purpose is to use the power of communications to make a better world.

We’re here to meet the needs of our customers, delivering the experience, products and services that matter to them. Millions of individuals connect through us to their friends and family, and have huge amounts of information and entertainment at their fingertips. The smallest companies, right through to multinational corporations, use our services every day to conduct their business. Many public services rely on our technologies. And in the UK, most of the telecoms industry operates across our networks – we help more than 500 other communications providers to serve their customers.

Our success as a business depends on delivering value to all our customers. We try to think ahead, anticipate what they want and develop products, services and an overall experience that meet their needs, whether as individuals or as businesses.

Our services are vital to our customers and their communities. We look for ways of using and developing those services to deliver economic growth and wider societal benefits. To bring our purpose to life, we’ve set a number of challenging long-term ambitions that make a positive impact on the societies, communities and environment we operate in (page 45).

By creating value for our customers and society, we grow our business and reward our shareholders for investing in us.

Our goal

Our goal is to deliver sustainable profitable revenue growth.

In previous years, we relied on cost transformation to offset declining revenues, so that we could grow our cash flows and the value of our business. This year, we grew our revenue, driven by the investments we’ve been making.

In the years ahead, we expect profitable revenue growth, combined with continued transformation of our costs, to provide a platform for long-term and sustainable cash flow growth.

We’ll reinvest some of the cash we generate back into the business, to help us to grow over the long term. A virtuous circle. And we’ll also use it to pay dividends to our shareholders and reward other stakeholders.

Our strategy

Our strategy is founded on broadening and deepening our customer relationships.

To deliver sustainable profitable revenue growth, we need stronger relationships with our customers. That means making sure we stay relevant to them as markets, lifestyles and technologies change.

The three pillars of our strategy help us do that: delivering superior customer service; transforming our costs; and investing for growth. The better our customer service, the more we’ll sell and the less time and money we’ll spend putting things right. And the better we manage our costs, the better value for money we can offer our customers and the more we can invest in giving customers what they need - today and tomorrow. These are the principles that drive our business model (page 28).

The diagram below shows our strategy in the year and how it supports our goal and purpose. It sits at the centre of our business model.

For 2016/17 our strategy is evolving. The three pillars remain broadly the same but with a wider focus on the overall customer experience rather than just on customer service. And with the acquisition of EE our investment areas are evolving to focus on having the best integrated network in the UK and being a fully converged service provider.

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A healthy organisation
Deliver superior customer service

Every day we touch the lives of millions, providing services that help people get the most out of their working and personal lives. Our customers’ experience is affected by the quality, reliability and value of our products and services. And by how responsive we are when we need to provide new services or sort out problems. Their expectations continue to rise as our networks play an increasingly important role in their lives and businesses.

Getting the customer experience right, and improving the quality of our customer relationships, is at the heart of our strategy for growth. And also supports our drive for cost transformation.

Customer experience is one of the measures we use to set our executives’ annual bonus. It is made up of the Right First Time (RFT) metric and a customer perception measure (see page 130). RFT is our key internal measure of customer service. It tracks how often we keep the promises we make to our customers.

How we did in the year

Our performance in the first quarter of the year was good. But in the second, third and fourth quarters, our service was impacted by electrical storms and system and network outages, as well as 11 separate winter storms over a five-month period. The storms resulted in record levels of flooding and while we received much praise for our response, they had a significant impact on our service. We recovered well in the fourth quarter and ended the year with a positive upturn in our service measures. But we missed our RFT target for the year as a whole. Performance was down 3.0% against a 4.7% increase in the prior year.

We need to redouble our efforts into next year as we know that we need to do much better. We’re investing in jobs and we’re multiskilling our people to give us better flexibility and capacity.

In last year’s Annual Report we outlined a number of specific areas that we would focus on this year. We’ve made good progress against each of these, although we recognise that we need to do more.

Acting on insight

We’ve redesigned the way we launch new products to more clearly reflect customer feedback and insight. BT Mobile was our first product launch in which customer experience was a specific design criteria from the outset. Our net promoter score is highest among consumers taking BT Mobile.

We’re rolling out this approach to other products under development.

Keeping our customers connected

We’ve invested more to help make our services more resilient. Our investment in proactive network maintenance is up by 22%, improving the fault profile of our network.

Creating great tools and systems

Our new ‘My BT’ app won a Digital Experience Award, and has been downloaded more than 435,000 times. 51% of users check the app monthly and 21% use it weekly. We’re updating it every quarter. Recent developments include letting customers pay their bills, monitor their broadband usage, find out about network issues, and view their orders and any faults.

In BT Wholesale we’ve invested significantly in our online capabilities including: improved search engines and navigation; personalised online order and fault management; and better online chat support.

Working better across our organisation

We’ve invested in broadening our contact centre agents’ skills and tools, letting them take greater ownership of customer issues and increasing the number of issues addressed in a single call.

Where we’ve introduced this, in relation to the provision of new connections, complaints are 50% lower and customer satisfaction is up more than 17%. We’re extending this model across all our contact centres.

Supporting our people

We’re bringing our call centres back to the UK, with 60% of BT Consumer customer calls being answered within the UK by the end of the year. And we’re planning to extend that to 90% by the end of March 2017.

To do this we’ve hired more than 900 people in the UK and plan to hire a further 1,000 over the course of the year ahead.

EE is creating 600 new roles to support its plans to handle all customer service calls in the UK and Ireland by the end of 2016.

Key priorities

Looking ahead, we’re focused on:

• investing further in our network, making it more resilient;
• reducing the number of appointments missed by our engineers;
• hiring more people into our contact centres;
• investing more in our contact centre advisers, giving them the skills and tools to solve more customer issues; and
• improving our online tools to make it easier for customers to serve themselves.
Transform our costs

Our approach to cost transformation
We run large and complex cost transformation programmes, led by a team of consultants. These consultants are BT people. They know our business better than anyone.

Our approach is based on a methodology honed over a decade. It’s underpinned by forensic data analysis, strong governance and the support of senior management.

Our largest cost transformation activities are driven ‘top-down’. They might be end-to-end programmes spanning multiple lines of business or complex changes contained within a single line of business. Continuous Improvement (CI) provides a complementary ‘bottom-up’ approach. CI makes small but important changes to how we do things every day. It has the added benefit of improving employee engagement.

Training is a key part of our approach. We have an in-house Cost Transformation Faculty, part of the BT Academy (page 32). The faculty is responsible for the continued development of our ‘change professionals’. This year we trained and coached more than 900 people. BT is the only UK organisation licensed by the British Quality Foundation to certify qualifications to the most advanced levels in Lean, Six Sigma and Change & Project Management methodologies on such a scale.

How we did in the year
This year, our underlying operating costs excluding transit were up 2% mainly reflecting higher leaver costs and our investment in BT Sport Europe. These offset our cost transformation activities. Over the last seven years we’ve reduced our operating costs and capital expenditure by over £5bn.

Programmes this year included:
- reviewing and improving our end-to-end process for planning engineer visits. By creating centres of excellence where planners are based together, streamlining processes and improving systems, we’re reducing the cost of failure, eliminating inefficiencies and improving service;
- developing a new operating model to govern how we serve the UK business market. By consolidating our sales and marketing teams, we’ll reduce administrative effort and duplication, and focus our people on what really matters – selling to customers;
- consolidating our IT functions to improve data security, system stability and to gain economies of scale. We’ve also made sure that our people have access to the right training programmes, career opportunities and are sharing best practice;
- rationalising, standardising and automating our internal reporting function. We’ve also created a data analytics capability to improve decision-making and provide support on larger transformation programmes;
- improving the efficiency and productivity of our off-shore shared service centres. In particular, we’re reducing the administrative resource required to operate these centres; and
- reviewing and redesigning our overseas operations with the aim of ensuring that back-office functions are done from centres of excellence located in low-cost countries. We’ve also continued to apply best practice from our UK operations.

Key priorities
Looking ahead, we’re focused on:
- realising substantial cost synergies from the integration of BT and EE (page 98);
- streamlining our Ethernet delivery and broadband repair processes with the aim of improving customer experience and reducing cost;
- reducing our network costs in the UK and overseas, which account for a large proportion of our overall costs; and
- rationalising and standardising our products, networks, applications and platforms, to remove complexity and reduce cost.

We’re confident that there are plenty of opportunities to reduce costs further. We see well over £1bn of gross opportunity over the next two years, much of which can be reinvested for growth. We continue to benchmark our cost of doing business against other large telecoms companies. While we’ve continued to improve our performance, we still see opportunity to do even better. Increasingly we look beyond the world of telecoms to other industries to identify more opportunities.

You can read about cost transformation within our lines of business from page 57. And the group’s operating costs are described on page 98.

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*Lean* is a methodology for achieving small, incremental changes in processes in order to eliminate waste and improve efficiency and quality.

*Six Sigma* is a data-driven methodology for eliminating defects in processes.
Invest for growth
We’re investing in five strategic areas. These are the things we believe will deliver sustainable profitable revenue growth – which will deliver value for our shareholders.

Fibre
We’ve long been at the forefront of fibre innovation and investment and we aim to keep it that way.

Our superfast fibre broadband network now reaches around 85% of the UK. With other networks, this takes availability to 90%. We plan to extend coverage even further, so that fibre availability goes beyond the UK Government’s current 95% target by the end of 2017.

We plan to start rolling out ultrafast broadband based on G.fast technology next year. Our new service is capable of delivering speeds of 300-500Mbps. We’re trialling the technology in a number of locations, including Huntingdon in Cambridgeshire and Gosforth in Tyne and Wear. With the right regulatory environment, the service will reach 10m homes and smaller businesses by the end of 2020 (with an ambition to get this to 12m), and the majority of premises within a decade.

Our ultrafast ambitions also include rolling out significantly more fibre-to-the-premises (FTTP). We intend to build FTTP infrastructure in new housing developments in the UK. We’re also conducting trials to explore if FTTP can be installed faster and more efficiently in business parks and high streets. These trials – and feedback from industry – could lead to a new FTTP product being developed for SMEs with speeds of up to 1Gbps and strong service guarantees.

TV and content
We’ve continued to improve our TV proposition:

- **New sports channel** – We launched BT Sport Europe, which is now the home of UEFA Champions League and UEFA Europa League football. We’ll show 350 matches each season for three years.
- **New services** – We introduced a number of innovative services, including BT Sport Ultra HD – the first Ultra HD sports service in Europe. We launched BT Sport’s Connected Red Button service, which allows BT TV viewers to switch between matches and use a new ‘Goal Alert’ function to keep track of the action across a range of games.
- **Richer content** – We continued to add popular content and TV channels. We secured the exclusive rights to show the next Ashes cricket series. And we extended our rights to the FA Cup by another three years to 2021.

Read more about these developments in the BT Consumer section on page 73.

Mobility and future voice
We completed the acquisition of EE. We’re now the UK’s leading communications provider, bringing together the UK’s best 4G network with the UK’s largest fibre network.

We want to transform the shape of communications by creating more innovative, converged products and services. We’ll address different parts of the consumer mobile market by using both the EE brand and the BT Mobile brand.

We’re making progress towards our goal that by 2025 all our voice customers will be served using an IP voice solution, having migrated off our traditional telephony platform.

UK business markets
We’ve continued to improve our product portfolio. We’re now better placed to meet the needs of our customers as they increasingly adopt IP and cloud-based services.

We’re reorganising our structure to take better advantage of the opportunities to grow our share of the UK business market. And to strengthen and deepen our relationships with UK customers.

On 1 April 2016, we created a new line of business, ‘Business and Public Sector’. It will serve businesses – large and small – as well as the public sector in the UK and the Republic of Ireland.

Leading global companies
We’re investing in our products, network and expertise to increase our share of spending by our large multinational customers (page 59). A particular area of focus is the ‘cloud’. We’re investing in new services that allow large organisations around the world to connect easily and securely to the applications and the data they need. We want to empower companies so they can integrate and orchestrate IT resources, irrespective of where they are hosted.

New services launched this year included:

- an extension of BT Cloud Connect to provide connectivity to HP Enterprise Helion Managed Cloud Services;
- a cloud–based Distributed Denial of Service (DDoS) mitigation service; and
- BT Assure Cyber Defence, an advanced security platform.

Our culture
We want to build and sustain a culture that helps us respond quickly and effectively to changes in our markets. This is vital to the delivery of our strategy. We continue to make organisational changes with the aim of improving our culture and our ability to perform well. These changes centre on:

- unifying the organisation around a common set of values;
- putting the customer first in everything we do;
- developing a leadership style which helps to drive change and gives people the confidence to take responsibility; and
- making BT an exciting place to work and a company our people are proud to work for.
Delivering our strategy

In this section we explain our business model and how we create value for our shareholders. We set out the main inputs and outputs of the business, as well as the key outcomes – the impact that we have on our stakeholders, on society and on the environment.

We describe the importance of our people, our physical assets and the research and development that we do. We report on the status of our brands and outline our relationships with our main stakeholders, including regulatory bodies. Finally we describe how we go about mitigating the principal risks and uncertainties that affect us.

The section starts with an overview of the Operating Committee, its members and their responsibilities.

Our people
Their commitment, expertise and diversity are key to the success of our business.

Our global reach
We offer services across 180 countries. We have more than 21,000 people based outside the UK, across 60 countries.

Our research activities
We invest extensively in R&D to find better ways of doing things and to offer new services. Innovation is an important part of our history and key to our brand and our future.
Operating Committee

This is our key management committee. It meets weekly and is chaired by the Chief Executive. Brief details of its members are set out on these pages.

The Operating Committee has collective responsibility for running our business and delivering our strategy. It monitors the group’s financial, operational and customer service performance and has cross-business oversight of the lines of business.

It also reviews the group’s principal risks and considers the potential threats to, and opportunities for, the business. It:

- develops BT’s strategy and budgets for the Board’s approval;
- recommends to the Board capital expenditure and investment budgets;
- allocates resources across BT within plans agreed by the Board;
- prepares and delivers major programmes, and reviews the senior talent base and succession arrangements.

It can approve, up to certain limits set by the Board, capital expenditure, disposals of fixed assets, investments and divestments. It has delegated some of these approvals to sub-committees, such as the Design Council (page 360), and to senior executives. The Company Secretary attends all meetings.

Nigel Stagg, formerly CEO, BT Wholesale and Joe Garner, formerly CEO, Openreach (an invitee to the Operating Committee) both left during the year.

Gerry McGuade
CEO, Wholesale and Ventures
appointed March 2016
Gerry was previously chief sales and marketing officer for EE Business, EE Business Wholesale businesses, and was responsible for all EE product development. Gerry was chief development officer at Orange from January 2008, where he was key in overseeing the merger of Orange and T-Mobile. He was also one of the founding directors of Virgin Mobile and previously worked at Celnet (now O2).

Gerry McQuade

John Petter
CEO, Consumer
appointed September 2013
John was formerly Managing Director, BT Consumer, BT Retail and prior to that, Chief Operating Officer in BT Consumer. John was appointed chairman of the Plurinet Board in 2008 and has overseen its development as a key part of BT’s strategy.

Prior to joining BT, John held roles as marketing and commercial director at Televest (now Virgin Media) and brand manager at Procter & Gamble.

John Petter

Graham Sutherland
CEO, Business and Public Sector
appointed September 2013
Graham was formerly Managing Director, BT Business, BT Retail, responsible for the small and medium-sized enterprises unit within BT Retail and prior to that, CEO of BT Ireland.

Before joining BT, Graham held a number of senior management positions including managing director of NTL in the Republic of Ireland. Graham is qualified as a Chartered Management Accountant.

Graham Sutherland

Tony Channugam
Group Finance Director
appointed to the Board as Group Finance Director in December 2008.
Tony was formerly CFO, BT Retail, and Managing Director, BT Enterprises and, from 1997 to 2004, he was CFO and then Chief Operating Officer of BT Global Solutions. He is qualified as a Chartered Management Accountant.

Tony Channugam

Marc Allera
CEO, EE
appointed February 2016
Marc was formerly chief commercial officer for EE, responsible for all commercial activities across a multi-channel operation including digital, retail, telesales and customer base management. Prior to EE, Marc spent ten years at Three UK where he held a number of senior positions, including chief commercial officer and sales and marketing director.

Marc Allera

Luis Alvarez
CEO, Global Services
appointed October 2012
Luis was formerly president of the European, Middle East, Africa and Latin America operations of BT Global Services serving some of our biggest global customers. Luis also led BT Global Services Telecom Markets unit, managing business with carriers and operators outside the UK. Before joining BT, Luis worked at Ericsson, IBM and Group Santander. Luis has a telecommunications engineering degree.

Luis Alvarez

Gavin Patterson
Chief Executive
appointed as Chief Executive in September 2013 and on the Board since June 2008.
Gavin was previously CEO, BT Retail and from 2004 to 2008 was Managing Director, BT Consumer, BT Retail. Before joining BT, Gavin was managing director of the consumer division of Televest (now Virgin Media). Prior to that, he spent nine years at Procter & Gamble, rising to become European marketing director.

Gavin Patterson

Howard Watson
CEO, Technology, Service & Operations
appointed February 2015
Howard was formerly chief architect and Managing Director global IT systems and led the technical teams behind the launch of BT Sport in 2013.
Howard joined BT in 2011 and has 30 years of telecoms experience having spent time at Televest (now Virgin Media) and Cartesian, a telecommunications consultancy and software company.

Howard Watson

Dan Fitz
Company Secretary
Dan is the Group General Counsel & Company Secretary of BT Group plc. He joined BT in April 2010 as its Group General Counsel and was appointed Company Secretary in November 2012. Dan previously spent six years at Moya’s and 12 years at Cable & Wireless.

Dan Fitz

Clive Selley
Invitez, CEO, Openreach
Clive was appointed CEO, Openreach in February 2016. He was formerly CEO, BT Technology, Service & Operations, CEO BT Innovate & Design and before that President, BT Global Services Portfolio & Service Design. He is an ‘invitee’ because the CEO of Openreach cannot be a member of the Operating Committee under the provisions of the Undertakings.

Clive Selley

Simon Lowth
Group Finance Director designate
Simon will join BT on 4 July 2016 as Group Finance Director designate and an Operating Committee member.

Simon Lowth
Our business model

We create value for shareholders by developing and selling services that are important to our customers and that benefit communities, the environment and society as a whole.

We invest to build and maintain communications networks in the UK and overseas; we develop products and services that run over those networks; and then we sell them to consumers, businesses and the public sector. By selling these services, we’re able to make a return on our investments. This means we can reinvest in the business to create value for our stakeholders over the short, medium and long term. A virtuous circle.

Our people

We have 102,500 people. Their commitment, expertise and diversity are key to the success of our business.

Networks & physical assets

Our networks and platforms are the foundations of the business to create value for our stakeholders over the short, medium and long term. A virtuous circle.

Research & development

We’re one of the largest investors in research and development in the UK.

Stakeholders & relationships

Key stakeholders include our customers, communities, shareholders, lenders, our pension schemes, suppliers, government and regulators.

Natural resources

We use some natural resources in doing business. Our energy use has declined for the seventh consecutive year.

In this Annual Report, coloured icons show the linkage between our business model inputs, outputs and outcomes (the impact that we have on our stakeholders, on society and on the environment).

You can find the inputs, outputs and outcomes for each of our lines of business from page 57.

This key provides a mapping to the ‘capitals’ of the IIRC’s Integrated Reporting (IR) Framework.

IIRC capitals key

- Financial
- Intellectual
- Human
- Social
- Manufactured
- Natural

You can find out more about the IR Framework at www.theiirc.org

For 2016/17 our strategy is evolving (see page 21).
Who we are
We’re one of the world’s leading communications services companies.

Where we operate
We’re based in the UK but we serve customers across 180 countries (see page 59).

How we make money
The main output of our business is our portfolio of communications products and services. We make money by selling these in the UK and around the world through our customer-facing lines of business.

We sell through a range of channels including online, contact centres and account managers. And, following our acquisition of EE, we now have around 560 EE shops in the UK.

Our revenue is mostly subscription or contract-based. Individuals, households and SMEs pay for standalone or bundled services, typically on 12 to 24-month contracts. Large corporate and public sector customers usually buy managed networked IT services on contracts spanning several years. Our wholesale customer contracts range from one month in length for regulated products, to five years or more for major managed services deals.

But it’s not just about the money
There’s much more to what we do than just making money. What we do matters. We help millions of people communicate, be entertained, do business and generally live their lives. We help our customers reduce their carbon footprint. And we contribute directly to communities and the health of the UK by providing jobs, working with suppliers and paying tax, and through our employees’ volunteering activities.

All of which contribute to the strength of our brands – which can influence whether a potential customer buys from us or one of our competitors.

Our approach
Our focus on delivering superior customer service, transforming our costs and investing for growth is central to what we do. They are key business activities. Better customer service means that we spend less time and money putting things right. These cost reductions, combined with savings from working more efficiently and the cash we generate from sales, mean we can invest in the future of our business.

Some investments, such as sports rights, have a lifespan of just a few years. Other investments, such as our fibre broadband network, are much longer term and can have ‘pay-back’ periods stretching to more than ten years.

Delivering our strategy is as much about how we do things, as what we do. That’s why being a healthy organisation (see page 33) and living our values (page 31) are so important to us. And that’s why our people are key to our success.

What sets us apart
We have a strong combination of people, technology, networks and other physical assets that set us apart from our competitors. Our research and development (R&D) activities are crucial to us – and to wider society. We have pioneered innovation in the telecoms arena, and our R&D supports new ways of doing things and advancements in our technology.

Importantly, we have the financial strength to invest in these areas to stay ahead of the competition.

A flexible and sustainable business model
Communications markets are dynamic and very competitive, particularly in the UK. There are risks and opportunities. Our Enterprise Risk Management framework (see page 46) helps us identify and mitigate the challenges and risks we face. And we do an annual materiality review to understand the societal and environmental issues that are important to our stakeholders.

We have a flexible and sustainable business model, enabling us to anticipate and respond to changes in our markets. It underpins our assessment of the future prospects and viability of the Group (see page 54).

We see more and more demand for our products and services because they play such an integral role in modern life. We use ‘insight’ teams to make sure we stay in tune with market developments and customer expectations. And we use governance committees, such as the Design Council, to make sure we’re making the right investments. So we’re confident that we’ll be able to deliver value over the short, medium and long term.

The Design Council is a sub-committee of the Operating Committee (page 26). It normally meets monthly. It is collectively responsible for aligning our capital investments in our networks, systems, platforms and products so that they are directed towards achieving our overall purpose and strategy, serve the needs of all of our customers and are delivered in a cost-effective manner.
Financial strength

We have the financial strength to make bold decisions and to invest in the things that set us apart.

Our goal is to deliver sustainable profitable revenue growth. Together with further transformation of our costs, we aim to grow our EBITDA and cash flow over the long term.

We have a prudent financial policy and strong governance over our decisions to make investments, manage our debt and grow our business, and over how we reward those who work for us and invest in us.

To build our business, we will continue to make bold decisions and be prepared to make strategic investments.

At the same time as investing in our five strategic growth areas (see page 24), we intend to reduce our net debt (which increased after our acquisition of EE).

We’ll also continue to support the pension fund and to do so in a responsible way. And we’ll pay progressive dividends to our shareholders.

Our financial strategy has been consistent for a number of years:

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<td>Grow EBITDA</td>
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<td>Grow free cash flow</td>
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| Invest in business | Reduce net debt | Support pension fund | Pay progressive dividends |

This approach gives us the financial flexibility to make long-term investments in the best interests of the company and our stakeholders; and also in the best interests of communities where we operate.

Our financial strength has underpinned the investments we’ve made in BT Sport in recent years, and which we’ll continue to make in the years ahead. And it meant that in January 2016 we were able to complete the acquisition of EE, the leading mobile network operator in the UK.

It means we can invest over £3bn to help take fibre broadband to 95% of the country by the end of 2017, with plans to go even further. And with the right investment and regulatory environment, we’ll invest in ultrafast broadband to 10m premises (with an ambition of reaching 12m) by the end of 2020.

It also means we can support the business in other ways. For example, by making sure we continue to innovate and stay at the forefront of a rapidly-changing industry. And by investing in the training, development and support we give to our people.

Our people

Every day our people touch the lives of millions, providing products and services which are essential to the fabric of today’s society – underpinning everything from global trade and industry to economic growth and social infrastructure.

They are at the heart of our ambition to deliver an excellent customer experience and sustainable profitable revenue growth.

Believing in what we do

A clear purpose guides everyone’s contribution in BT. By bringing together the best networks, technology and products and services for our customers, we use the power of communications to make a better world.

With EE joining the group, we’ve embraced the opportunity to combine the best of both cultures. Creating possibilities for employees is at the heart of this and is a common theme across our employer brand pillars:

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<th>Making a better world together</th>
<th>Go anywhere, do anything</th>
<th>Bringing ideas to life</th>
<th>Simplifying complexity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Join a community dedicated to making a difference in the world</td>
<td>Find a world of diverse, exciting career opportunities</td>
<td>Be the best you can be and explore your inventiveness</td>
<td>Transform complex technology to make our customers’ lives easier</td>
</tr>
</tbody>
</table>

During the year we had five values to guide our people: Customer, Team, Honesty, Change and Pride. But we’re changing as a business so feel the time is right for a refreshed set of shared values.

We asked our people what they thought. We asked our customers too — they said they want us to understand their needs, be easy to deal with and show we care. So from next year our values will be: Personal. Simple. Brilliant.
A global workforce
At 31 March 2016 we had 102,500 full-time equivalent (FTE) employees in 61 countries, with 81,400 of them based in the UK. This includes 12,800 who joined the group as part of EE.

We’re one of the largest employers in the UK, supporting its economy by providing jobs and income.

This year, excluding acquisitions, we recruited nearly 11,400 people, bringing fresh ideas and new approaches to help us innovate, learn and improve. Of these, more than 4,200 are in the UK.

<table>
<thead>
<tr>
<th>External hires (full-time equivalents)</th>
<th>Year ended 31 March</th>
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<tr>
<td></td>
<td>UK</td>
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<tr>
<td></td>
<td>2013</td>
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We continued to transform our HR function, reviewing our systems, processes, policies and services. This has allowed us to simplify further the way we work and to improve the service our HR team offers our people.

As our business evolves to meet the needs of our customers, we adapt our organisation, redeploying people through the BT transition centre. This helps us avoid redundancies. Last year in the UK, 1,000 people were redeployed, meaning that we retained experienced people with the skills we need for the future.

Recruiting talented people
A customer-connected workforce
Improving the quality of our customer relationships is at the heart of our people strategy.

We’ve built on previous years, recruiting 900 new field engineers and more than 900 new people to work in customer-facing roles – in our UK contact centres. We’ve also converted 600 agency workers to permanent employees, so that we keep their skills and experience in the organisation.

Highest-ever graduate intake
In 2015/16 we hired 300 graduates globally, our highest intake to date. We’re planning on hiring around 300 again in 2016/17.

We were again in the top half of The Times Top 100 Graduate Employers. We’re one of only four companies in the IT and telecoms sector to feature in the top 100.

Hiring more apprentices
We hired around 550 new apprentices into eight business operations, learning a range of skills. Demand for apprentices continues to grow so we expect to hire even more next year.

Investing for growth
Learning matters at BT. We create meaningful roles so that people understand what they are responsible for. We also invest in learning and development to allow our people to build skills and careers to deliver successfully for our customers. The BT Academy helps them do this.

The Academy is not a physical place or building, it’s a combination of materials, events, and activities. It gives people easy access to the knowledge and skills they need, when they need it, changing the way they learn and develop. It is organised across four ‘faculties’.

<table>
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<th>The Academy</th>
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<tr>
<td>Business</td>
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Each faculty supports a number of communities we call ‘professions’, providing both structured learning and ways to connect and share with others.

We’re very pleased with how the Academy has done in its first full year. Across the world employees used the Academy website over 400,000 times. Over 20% of our people each month are now sharing information and ideas as well as accessing learning materials online.

The tools we’ve developed have won awards – gold for Internal Learning Solution of the Year at the Learning and Performance Institute Annual Learning Awards 2016, and silver for Best Use of Technology in Learning at the Training Journal Awards 2015.

This year has seen many success stories culminating in the National Apprenticeship Finals in January 2016 where we had two finalists. We also won the Scottish SDS Macro Apprentice Employer Of The Year Award.

Preparing young people for employment
With growing demand for digital skills in the UK, we feel well-placed to help create a future supply of suitably-skilled people, helping both our own business and the national economy, and creating a brighter future for the country’s youth.

Our 2020 ambition
Help 5m children to receive better teaching in computer skills

Creating a culture of tech literacy
We’ve made a long-term commitment to help build a culture of tech literacy. As our first goal, we want to help 5m children by the end of 2020.
We’re doing this by:

- **Inspiring Kids** to connect with exciting and relevant tech concepts;
- **Enabling Teachers** to feel confident to teach young people about tech in computing lessons; and
- **Equipping Schools** to be able to use technology effectively.

We’re working with our partners – the British Computer Society and the National Schools Partnership – to deliver the Barefoot Computing Programme, which helps primary school teachers across the country deliver the new computing curriculum. Over the 2014/15 school year we supported 12,500 teachers, helping to give around 340,000 children better teaching in computer science. We’re on track to reach a further 15,000 teachers and 400,000 children by the end of the 2015/16 school year.

**Getting young people ‘Work Ready’**

We’re a founding partner of Movement to Work, a voluntary collaboration of UK employers committed to tackling youth unemployment. Our Work Ready programme helps 16–24 year-olds get better prepared for work, building both confidence and their core employability skills. It often supports people from disadvantaged backgrounds.

Our traineeship programme is at the heart of our strategy. Those not currently in education, employment or training can join BT for seven weeks of skills development and work experience. So far over 1,000 young people have taken part in this initiative, with more than 600 gaining recognised certificates in work skills and business administration. Many go on to get jobs, either in BT or elsewhere.

**The Prince’s Trust**

BT is part of The Prince’s Trust Technology Leadership Group, which helps thousands of young people turn their lives around each year. We’ve donated use of the BT Tower as a venue for the Trust’s annual ICT Leaders Dinner for the last ten years – raising £96,000 in 2015.

**Engaging our people**

We continue to focus on the health of our organisation. From the rapid expansion of our Academy, through to the business initiatives that are driving ‘Continuous Improvement’ across BT, we are investing in a culture of strong employee engagement.

This also benefits our customers. We believe that highly-engaged employees provide the best experience for customers, helping us to broaden and deepen our relationship with them.

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**Employee engagement index**

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<th>Year ended 31 March</th>
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**Challenge Cup**

Challenge Cup is our key people engagement programme. It’s an annual competition that started in 2003.

It encourages people to form teams and come up with insights and new initiatives, including ideas for changing business processes.

The aim of the Challenge Cup is to improve customer experience while generating ideas for creating growth and saving money for BT. This year over 4,300 people came together to form over 900 teams across 24 countries. The number of people participating has increased year on year, with 67% of those involved this year doing so for the first time.

Twice a year, more than 72,000 people provide feedback on working for BT through our employee engagement survey. It helps us develop a focused people strategy and support action planning at a local level. Engagement levels have remained stable for the last two years at just over 3.8 (out of a maximum of 5, with a telecoms benchmark of 3.95).

We keep our people informed about company results, major business decisions and other things that affect them using a variety of digital channels. Leaders regularly connect with their teams through roundtable meetings, town hall debates, site visits, webcasts and blogs.

We consult with our people or their representatives on a regular basis, taking their views into account on decisions that affect them. In the UK we recognise two main trade unions. The Communication Workers Union represents people in engineering, administration and clerical positions. Prospect represents managerial and professional people.

**Diversity at work**

Diversity is part of our heritage – as far back as 1880 Henry Fawcett, who was blind, was appointed Postmaster General.

Improving the mix of our people remains a priority and, in particular, we’re encouraging more women to take up a career in technology. We’re proud of our Tech Literacy programmes and events like the BT Young Scientist and Technology exhibition that target young women in education. We’ve run recruitment campaigns in Openreach to attract more women into engineering and redesigned our entry schemes to try to get rid of any unconscious bias.

19,000 women now work for us – many with flexible contracts. That’s 21% of our workforce and there are more than 11,000 women in our management team (corresponding to 26%). We aim to have at least 25% female representation on our Board, and it currently sits at 27% (three out of 11 Board members). Our maternity return rate, measured one year after women come back, is 86%, well above the industry average.
Gender is only part of the story. Our aim is to create an inclusive culture that values all differences in people. Research shows that diverse teams are more innovative and can deliver a better experience to an equally diverse customer base.

This year we’ve focused on Inclusive Leadership training for senior management teams, specific programmes around working patterns and promoting our #betttertogether culture. The Race at Work report we sponsored with Business in the Community will set the direction for development programmes for our employees from black and minority ethnic backgrounds.

We are a “Two Ticks” employer and we actively encourage the recruitment, development and retention of disabled people. We’ll automatically put an applicant with a disability or long-term health condition, who meets the minimum criteria for a vacancy, through to the first stage of a recruitment process. We’re making progress on improving diversity but we recognise that there is a lot more we need to do.

**Staying safe and well**

We’re committed to having no avoidable health and safety incidents. The 11% reduction in the rate of lost time due to injury brings us to our lowest-ever level. However, some of our activities are inherently hazardous and the risks, particularly in external engineering, remain challenging to manage. We’ve accepted some localised and historic failures raised by the Health and Safety Executive. We’ve done a lot to mitigate the risks highlighted and we still compare well with industry benchmarks.

We haven’t done as well as we wanted on some indicators. Our sickness absence rate has risen by 5%, driven mainly by increasing levels of musculoskeletal and mental health conditions. We’ve measured our people’s sense of wellbeing for some time. The long-term improvements we’ve seen were broadly flat this year, with a small increase of 0.5%. The pattern of sickness absence and wellbeing varies across the group and is strongly linked to the level of change taking place within a particular business area. We see the best results where changes have been well managed with a style that takes account of people’s perceptions. We’re sharing best practice on managing change across the lines of business and through the Academy.

We continue to focus on early intervention when people are sick or injured. Our company-funded schemes helped get 91% of people treated back into their role on full duties.

## Volunteering

Our 2020 ambition

**Inspire two-thirds of our people to volunteer some of their time**

- **66%**

Our people can use up to three working days a year on volunteering activities. As well as having a positive impact on society, our employee engagement survey (see page 33) shows higher engagement levels from those who volunteer than from those who don’t.

Some people choose to help charities with particular issues needing their expert input and knowledge. Others use their energy and enthusiasm to make a practical difference in their local communities. That includes helping our tech literacy programme and promoting traineeships.

This year over 27% of our people spent nearly 45,000 days volunteering their time to support charities and community groups around the world. BT volunteers were involved in raising £8.5m for Children In Need and £2.9m for Sport Relief.

The EE business shares our passion for making a difference. It supports several charities through volunteering such as ‘Apps for Good’, in which young people use new technologies to design and make products that can make a difference to their world, gaining confidence and skills at the same time. Our combined contributions will benefit good causes in the years ahead.

**Pay and benefits**

We compare pay and benefits for our people with companies of similar size and complexity to ensure our remuneration is competitive.

In the UK, most of our engineering and support people are paid on terms and conditions negotiated through collective bargaining with our recognised trade unions, ensuring fair terms and conditions for all. Our managers’ pay and any bonuses are determined by a combination of business performance and their personal contribution to the company.

Our executives may also receive long-term awards to reward the creation of shareholder value. The amount they ultimately receive is determined by the group’s performance over a three-year period. Executive directors must retain incentive shares for a further two-year period.

In line with our regulatory obligations, incentives for people in Openreach are tied solely to a combination of personal contribution and Openreach’s performance, rather than that of the wider group.

We support our people by providing a range of retirement savings plans. In the UK, our main defined benefit scheme is the BT Pension Scheme and our defined contribution scheme is the BT Retirement Saving Scheme. You can read more about these on page 107.

**Sharing in success**

Almost 60% of our people take part in one or more of our savings-related share option plans (saveshare), which operate in over 25 countries. In August 2015, almost 13,000 people in our 2010 saveshare plan were able to buy shares at 104p, representing an average gain of around £10,000 each.

### Our networks and physical assets

Our networks, platforms and IT systems are the foundations of the products our customers rely on around the world.

**Network platforms**

**Our global reach**

Our global network provides service to 180 countries and is supported by in-country networks and infrastructure. Most of our network assets are in the UK and continental Europe. We continue to selectively expand the reach of our network to support multinational companies in other regions. And we use the expertise we gain from protecting BT’s own networks, to help secure our customers’ networks.

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6 Two Ticks is an accreditation that is given to organisations that are committed to employing disabled people.
The scale and reach of our global multi-protocol label switching (MPLS) network is a key competitive differentiator. This single IP-based network lets our lines of business launch products and services quickly and cost-effectively, without having to invest in dedicated infrastructure for each product.

To help our multinational customers connect their sites we offer virtual private network (VPN) services, which are integral to our ‘Cloud of Clouds’ vision (see page 60). VPNs provide the convenience and security of a private network, but over the public internet. We use our MPLS network together with a combination of owned and leased fibre connections to connect our points of presence (PoPs) around the world. For the final connection into the customers’ premises, we either use our own circuits, or rent connections from telecoms operators in that country. We also have an extensive satellite network which provides customers with connectivity around the world, including remote locations.

In-country networks

We have extensive networks in the UK, as well as in Germany, Italy, the Netherlands, the Republic of Ireland and Spain.

Our UK fixed-line network is one of our most valuable assets and our investment in fibre broadband is key to delivering modern, superfast services to UK consumers. To meet the demand from businesses, we’re continuing to expand the availability of Ethernet. And when our customers are away from their home or office, they can use one of more than 5.6m BT Wi-fi hotspots.

Our research shows that over the last five years, at peak times, data traffic in the core network has grown by around 50% a year, and we expect growth to continue at a similar rate. So we’re making sure that our core and access networks can cope with that demand.

We have access to over 18,500 basestation sites including those via the MBNL joint operation between EE and Hutchison 3G UK (see page 237).

Progress this year

This year we’ve:

- installed new, more cost-effective MPLS network routers in all 106 core exchanges in the UK;
- installed new Ethernet switches into 169 exchanges, so even more businesses can have access to BT Ethernet services;
- continued to roll out the latest technology, such as content caching so we can use network capacity better and speed up the delivery of TV and internet content; and
- integrated the technology to allow BT Global Services to offer a software–defined WAN service. This lets enterprise customers use different types of network together, and provide various services to their users seamlessly, as if over just one network.

Service platforms

We run a number of service platforms that combine our network and IT resources. They underpin many of the key products we offer.

One such platform is BT Conferencing, which provides audio and video conferencing services to customers around the world. Our audio conferencing service is called BT MeetMe and is available with Dolby Voice for higher quality sound and a better user experience.

Our BT TV platform supports a growing number of customers and we’re increasing the range of services it delivers. We designed, developed and tested the new BT Ultra HD set-top box. We also launched our BT Sport app. It provides customers with functionality like goal replays, different camera angles and extra facts – all to enhance the viewing experience.

IT systems

Our IT systems let us manage our processes, handle customer information and deliver our products and services. They’re critical to serving our customers and running our business.

For example, our customer management systems hold customer and billing information. They include the technology that works with our online customer portals. And the technology used when customers call a contact centre.

Progress this year

This year we’ve:

- delivered an integrated set of applications that we call Consumer.com. It’s part of our focus on broadening and deepening our customer relationships. It means we’ve a much easier way for our customers and contact centre agents to manage customer accounts, and track orders and fault management. It has resulted in around 10,000 fewer calls to our contact centres each week;
- introduced ‘View My Engineer’ to help reduce missed appointments. A customer can use it to check details of scheduled engineer visits. It provides engineer contact details, indicates when the engineer is travelling to the appointment, when the work has been started and when the work has been done; and
- continued to innovate in our data centres – improving their performance and removing older server technology. For example, this year we started to roll out storage virtualisation which helps us store data more efficiently.

<table>
<thead>
<tr>
<th>Core network peak-time traffic</th>
<th>Year ended 31 March</th>
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<tbody>
<tr>
<td>Gbps</td>
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<td>25,000</td>
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As a result of buying EE, we now own the UK’s largest mobile network. We’ll continue to invest in its coverage and capability, to consolidate its position as the biggest and fastest in the UK. At the end of March 2016 outdoor coverage of the UK population was:

- over 99% for 2G;
- over 98% for 3G; and
- over 96% for 4G.

We want to expand 4G geographic coverage. This stands at 60% today, and we plan to get this to 95% by the end of 2020 with an ambition to go even further.

Between BT and EE, we have a combined 120MHz of paired mobile spectrum. This means we’re able to offer speeds of up to 90Mbps in areas served by our 4G+ network.
Properties
We have around 7,000 properties in the UK and 1,730 across the rest of the world. The number of properties in the UK is higher than the 6,350 we had last year, mainly reflecting our acquisition of EE in January 2016. Through this, we’ve added 635 properties, of which around 560 are EE shops. There are also around 40 former shops EE is in the process of disposing of.

We lease the majority of our UK properties from Telereal Trillium, part of the William Pears group. We signed a sale and leaseback arrangement with them in 2001. 88% of our UK properties are operational sites housing fixed and mobile telecoms and broadband equipment. The rest are retail outlets, offices, contact centres, depots and data centres. We also have our BT Sport TV studios in London.

In the UK, we’ve been consolidating and disposing of surplus office space for several years and we’re working on further opportunities to streamline our real estate. We continue to reduce the size of the operational estate as new fibre-based technologies mean we can dispose of buildings and make energy savings. This year we brought our property management activities back into BT from Telereal Trillium. This will reduce costs by simplifying how we manage our UK property portfolio.

Outside the UK, our offices in Gurgaon, Kolkata and Bengaluru in India are now home to our Central Business Services organisation. This provides support to our lines of business. As part of our strategy of investing in high-growth regions, we’ve expanded our offices in Budapest and Debrecen in Hungary – so we can support our global customers more effectively and efficiently.

Research and development
We invest in research and development (R&D) as we believe commercial success is ever more dependent on it. Our long history of innovation combines scientific breakthrough, practical engineering and commercial purpose. We call this ‘purposeful innovation’.

Our innovation heritage
Our origins can be traced back to an entrepreneurial fusion of business and innovation. In 1837 Sir William Fothergill Cooke (a businessman) and Sir Charles Wheatstone (an academic) filed a patent for the world’s first practical electric telegraph. This led to the founding of the Electric Telegraph Company in 1846, the seed company that eventually led to the formation of BT.

We’ve pioneered many of the technologies that we and customers now rely on. For example, in 1926 we established the world’s first two-way, trans-Atlantic conversation by radio telephone, from our wireless station near Rugby. And in 1943 Tommy Flowers, working in the telecoms division of the GPO, developed the world’s first programmable electronic computer, Colossus. In 1968, we installed the world’s first digital telephone exchange. We laid the world’s first, purpose-designed optical fibre submarine cable in Loch Fyne in 1980. And in 1984, we installed the world’s first 140Mbps commercial single-mode optical fibre link. Our global IP Exchange platform (GIPX) was the result of one of our research projects. And more recently, we’ve led the industry in setting out our vision for widescale deployment of ultrafast broadband.

We sponsor the Information Age gallery at the Science Museum where many of our historical innovations can be seen, including parts from Colossus.

This year we invested around £470m (2014/15: around £500m) in research and development. Over the years we’ve been one of the largest investors in R&D of any company in the UK, and globally in the telecoms sector. We continue to grow the number of inventions we produce from our research activities. In 2015/16 we filed patent applications for 97 inventions (2014/15: 93).

We routinely seek patent protection in different countries, and at 31 March 2016 had a worldwide portfolio of around 4,700 patents and applications.

BT property portfolio (UK)

EE property portfolio (UK)*

Number of new invention filings
Year ended 31 March

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>Number of new invention filings</th>
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<tbody>
<tr>
<td>2012</td>
<td>70</td>
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<tr>
<td>2013</td>
<td>85</td>
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<td>2014</td>
<td>98</td>
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<td>2015</td>
<td>93</td>
</tr>
<tr>
<td>2016</td>
<td>97</td>
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We exclude leased cell sites.

Open innovation  
We bring together expertise and resources (both our own and third-party) at our eight global development centres. Adastral Park in the UK is our technology headquarters. It’s an innovation campus which we share with around 70 high-tech companies, and a workplace for around 3,700 people. This year we continued to grow our development centres in Kuala Lumpur and Bengaluru.

We’re keen to work with people outside BT. We have extensive, long-standing, joint-research programmes with Cambridge University (UK), Massachusetts Institute of Technology (US), Tsinghua University (China), Khalifa University (UAE) and over 30 other universities globally.

Global innovation scouting  
Our research teams work with customers and other companies in the US, Asia, Europe and the Middle East. And we’ve had people located at hotbeds of innovation such as Silicon Valley and Cambridge, Massachusetts for over 15 years.

These teams help us track the latest global developments in new technologies, business propositions and market trends. We’ve been finding new ways to support start-ups in Adastral Park and in London’s Tech City. And through our BT Infinity Lab programme we partner with entrepreneurs to meet and co-innovate with start-ups from around the world.

Our people help us innovate. This year our internal New Ideas Scheme had more than 1,700 submissions. It’s helping us provide a better service to our customers.

We run innovation showcases where business customers can discuss applications and solutions with our experts, and work with them on solving problems.

Under our communications programme, ‘Ingenious’, we’re sharing BT’s innovation story with thought-leaders, governments and the media. Examples of our research activities this year include:

G.fast speed improvements  
We’ve been driving the standards for a new transmission system at the heart of our ultrafast broadband vision. This means we should be able to deploy ultrafast broadband far more quickly than previously thought possible.

XG-FAST trial  
Working with Bell Labs, we’ve demonstrated speeds of 5.6Gbps over 35 metres of copper cable in lab conditions. This proves it’s possible to achieve very high broadband speeds over existing infrastructure.

Long-reach VDSL  
We’ve shown in the lab that we can take a 2km long copper line currently achieving 9Mbps with standard VDSL, and increase this to 24Mbps and beyond.

Future-proofing exchange operations  
We’ve been improving the tools that our exchange-based engineering teams use for planning their work. We use artificial intelligence and mathematical modelling to better forecast, plan and schedule where people and equipment will be needed.

Quantum communications  
We’re also leading the world in demonstrating how quantum physics and optical engineering are on the cusp of providing much improved security for optical fibre systems. We’ve shown how a 200Gbps stream of encrypted data can be transmitted on the same 100km network link as a quantum encryption key. This work could offer enhanced security for the data networks of the future.

Brand and reputation

We own three strong brands: BT, EE and Plusnet. These are at the heart of our efforts to broaden and deepen our customer relationships. The experience our customers have is shaped not just by the service our front-line teams provide, but by everything we do: from the products and propositions we design, to the way we communicate with customers.

The BT brand continues to go from strength to strength. Brand Finance has valued it at $18.4bn, 14% more than a year ago. According to their analysis, BT is the 60th most valuable brand in the world and the third most valuable brand in the UK.

In March 2015, we re-entered the UK consumer mobile market, under the BT brand. In January 2016 we took ownership of the EE brand. Since its launch in 2012, the EE brand has achieved impressive results in terms of awareness and positive associations.

The Plusnet brand continues to offer a distinctive position of brilliant service at a great price. We’ll continue to run all three of our brands in the UK consumer market, offering products that meet different customer needs.

We continue to innovate for our customers, further building the strength and breadth of our brands. For example:

- In August, we added to our BT Sport offering, showing exclusive UEFA Champions League and UEFA Europa League games. We enhanced this with the launch of Europe’s first live Ultra HD sports TV channel.
- We also embarked on a multi-year strategic technology partnership with the Williams Martini Racing Formula One team. We’re providing the team with innovative communications technology to help improve car performance with instant access to real-time data. Our collaboration is already helping Williams to work better – connecting race tracks around the world with its headquarters in Oxfordshire.

Using partnerships to raise awareness

Partnerships continue to play an important role in how we build our reputation and show our support for good causes. For example we:

- launched our BT Sport Infinity Lab competition to find start-ups and entrepreneurs with innovative digital media and production solutions;
- agreed multi-year sponsorship of the Institution of Engineering and Technology’s new Diamond Jubilee Scholarship Programme;
- have continued to develop our Connecting Africa programme (see page 38); and
- continued to support good causes including Children in Need in November 2015 and Sport Relief in March 2016 (see page 34).
Stakeholders and relationships

As well as our people, our main stakeholders are: our customers; communities; shareholders; lenders; our pension schemes; suppliers; government; and regulatory authorities.

Our markets and customers

We sell fixed-voice, broadband, mobile and TV products and services to individuals and households in the UK. For small and medium-sized enterprises, as well as larger businesses in the UK, we offer fixed-voice, broadband, mobility, networking and IT services. In both the UK and globally we offer managed networked IT services to multinational corporations, domestic businesses and public sector organisations.

Some of our customers are also our competitors. This is because we sell wholesale products and services to other communications providers in the UK and overseas.

You can read about our markets, customers and the services we provide them in our lines of business section, from page 57.

Communities and society*

BT’s purpose is embedded at the heart of our business, and has helped us to deliver economic growth and wider societal and environmental benefits. During the year we invested £35m to accelerate a number of environmental and societal priorities that help to bring our purpose to life (see page 43). This investment is a mixture of cash, time volunteered, and in-kind contributions. It is equivalent to 1.1% of our previous year’s adjusted profit before tax. Over the last five years we’ve invested over £153m, an average of 1.18% of our adjusted profit before tax.

Creating a connected society

Our 2020 ambitions

More than 9 out of 10 people in the UK will have access to our fibre-based products and services

Help 10m people overcome social disadvantage through the benefits our products and services can bring

This year, we extended our fibre footprint in the UK to more than 25m premises and – in line with our 2020 goal – this means around 8.5 out of 10 people can now access fibre-based products and services (see page 85). We plan to extend coverage even further so that fibre availability in the UK exceeds the Government’s current target of 95% by the end of 2017.

We continue to push for greater digital inclusion, both by playing a leading role in the development of the Government’s Digital Inclusion Outcomes Framework, and through the use of our own products.

We’re helping low income groups to get online with two products: BT Basic + Broadband and our BT Business Digital Inclusion for Social Housing solution. The launch of the ‘BT and Barclays Wi-Fi in Our Community’ initiative is providing access, guidance and coaching to those who need it most.

Keeping people safe online remains a priority. Internet Matters, the website we co-founded in 2014 to help parents keep their children safe online, has now had over 2.5m visitors. The Right Click, our partnership with UNICEF UK, has seen BT volunteers deliver 280 workshops in schools, teaching children and parents how to use the internet safely.

This year we’ve developed a methodology to measure the social impact of our products and services. This has been successfully piloted on three propositions (BT Basic, Digital Inclusion for Social Housing and Mobile Health Worker) and has been used on a corporate contract through our work with the Colombian government (page 62). Having a way to measure the wider benefits our products and services can bring shows how valuable ICT, and what we do, has become in people’s day-to-day lives. We can also use the methodology to influence how we develop our future products.

Outside the UK, our Connecting Africa programme has now successfully connected all 30 of the planned SOS Children’s Villages, in 13 countries, using BT’s satellite technology. We have used this in seven villages to provide a new Healthcare Management System, improving healthcare services for over 100,000 people.

We also continue to embed social and environmental criteria into our business processes, helping us to make better decisions, stimulate growth and spark innovation. In January we launched a BT Infinity Lab competition, in partnership with the Department of Transport, to stimulate social and environmental innovation in the SME sector.

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* Data excludes EE.
Supporting charities and communities

Our 2020 ambition

Help generate more than £1bn for good causes, using our people, their skills and our technology

This year we added £94m towards our £1bn target. £60m of this was raised via MyDonate, our commission-free online fundraising and donations platform. This takes our overall fundraising total to £327m.

As well as supporting a number of smaller charities and individual fundraisers, we again used MyDonate and our communications technology — with help from our volunteers — to support various large telethons (page 34). These included Comic Relief, Children in Need, and the Disasters Emergency Committee appeal after the earthquake in Nepal.

In the UK, we provide discounted calls and line rental charges to members of The Charities Club, saving those charities £1.2m on their phone bills.

We see sport as a positive vehicle for change in young people’s lives. Through the donations of BT Sport customers, The Supporters Club funded nine new sports charities and community sports foundations this year (four in the UK). And we encourage people to take up sport through the Join In campaign.

Our shareholders

We have around 825,000 shareholders. As well as the Annual Report and Annual General Meeting, we keep our shareholders up to date with how we’re doing through regular mailings. These often include offers on our products and services that are only available to shareholders. Our website includes press releases, newsletters, presentations and webcasts that can also keep our shareholders informed.

We held a general meeting in April 2015 at which our shareholders approved the acquisition of EE. And in January 2016 we published a prospectus for the issue of new BT shares that were part of the consideration for the acquisition.

Most of our shares are held by institutional investors. We have an extensive investor relations programme aimed at keeping existing investors informed and attracting new ones. This programme includes:

• reporting quarterly results, accompanied by a conference call or presentation from senior management;
• “teach-ins” on key topics;
• site visits (for example this year we invited investors to an innovation event at Adastral Park); and
• meetings and conference calls with investors both in the UK and around the world.

In 2015/16, we held 353 meetings or events with institutional investors. This compares with 369 in 2014/15.

We were voted the best company for investor relations in England in the Extel Survey 2015, for the second year running. We also maintained our second place in the European telecoms sector. And we won the IR Magazine award for best investor relations in the European Technology & Communications sector.

Our lenders

Our lenders, mainly banking institutions and bondholders, play an important role in our treasury and funding strategy.

These relationships are vital for funding the business and meeting our liquidity requirements. We tell you more about this on page 102.

Our pension schemes

We operate defined benefit and defined contribution pension schemes. The largest is the BT Pension Scheme (BTPS) which has 301,500 members. You can read more about it on page 107.

Our suppliers

Our suppliers play a vital role; their products and services help us deliver our strategy. We source from across the world and currently have suppliers in over 150 countries. We spent around £10.2bn with our suppliers this year (2014/15: £9.4bn). Around 64% of our spend is with the top 100 suppliers.

We want to get the most from our suppliers – especially from their diversity, skills and innovation. The mix of suppliers keeps evolving as we expand into markets such as mobility, TV and televised sport. This year we’ve grown our supplier base in IT security, to support our growing investment in cyber security. But we’ve also removed over 2,800 suppliers from our procurement systems.

As part of integrating EE, we’re working to identify opportunities for cost savings and efficiencies through our combined spend.

Our approach to procurement

We have around 330 BT people in 30 countries working with suppliers. As part of our cost transformation activities we’ve concentrated on making the most of our relationships with our largest suppliers to get even better value. In-life contract management of our top 130 suppliers has delivered savings of around £1.8bn.

We’ve continued our Purchase Order (PO) Intercept programme, reviewing all POs over £1,000 to make sure that we’re getting the best from our spend across BT. Our Central Business Services organisation has hired more people to support this programme. They’ve reviewed around 90,000 POs, accounting for £4bn of spend, and have saved us more than £1.5m.

The Procurement Profession, part of the BT Academy, has grown this year, developing a rich library of over 120 training modules. The website attracts nearly 250 visits a month on average.

Our ambition is to have all our buyers accredited and licensed. And for a few of our expert practitioners to be recognised externally as fellows of CIPS (Chartered Institute of Procurement and Supply).

We now have 198 licensed buyers. And there are now five fellows of CIPS (2014/15: two) leading our procurement activities in BT.
Choosing our suppliers
We want to know who we’re doing business with and who is acting on our behalf. So we:

• choose suppliers using principles that make sure both we and the supplier act ethically and responsibly;
• check that the goods and services we buy are made, delivered and disposed of in a socially and environmentally responsible way; and
• measure things like suppliers’ energy use, environmental impact and labour standards, and work with them to improve these.

Ethical standards in our supply chain
We want our suppliers’ employees to experience working conditions that are safe and fair. We send all but our lowest-risk suppliers an ethical standards questionnaire. Based on their responses, we follow up with any suppliers identified as high or medium risk. This year we met our target to achieve 100% follow-up action within three months. We also visit supplier sites to make sure they meet our standards. This year we visited 47 sites around the world, the same as last year.

We introduced it in September 2013 and it’s now one of the largest supplier finance schemes in the UK, supporting over £1.4bn of spend. EE also operates a supplier finance scheme. These schemes are attractive for SMEs (who make up around 40% of our supply base). They also support UK government initiatives to encourage small business growth.

We also follow the principles of the Better Payment Practice Code set up by the Government in partnership with business organisations.

Human rights
The human rights of our employees, people working in our supply chain, our customers and members of the communities where we operate could be affected by the way we do business. We think about what these effects could be and try to positively impact the experience and approach for those we work with. We also consider how we can remove or reduce potential negative impacts in accordance with the UN Guiding Principles on Business and Human Rights (UNGPs).

It’s important that everyone in BT, and everyone who works with us, understands our commitment to the UNGPs. That’s why we commit to them in The Way We Work, our statement of business practice.

We have other policies to address specific issues which might affect human rights, such as: supply chain standards; diversity and inclusion; and safety and wellbeing in the workplace.

We’re in the process of drawing together our approach into one overarching human rights policy so that anyone can easily access our principles and understand how we put them into practice.

As we’re a communications provider, the rights to privacy and freedom of expression are the human rights which could be most at risk from our operations:

• Privacy – because we must comply with laws on investigatory powers. These allow governments, in certain situations, to request information about how people use our services and the content of their communications.
• Freedom of expression – because although we don’t host much online content ourselves, we do help people get online. So if we block content (which we do in very limited circumstances), that could clearly affect people’s rights to express their views and receive information.

We support and respect people’s rights to privacy and free expression, though we accept that sometimes there may need to be limitations on those rights, as international human rights standards allow. Any limitations should be within clear legal frameworks with the right checks and balances. In December 2015 we published our Privacy and Free Expression in UK Communications report which explains our approach to this in more detail.

Our Human Rights Steering Group, which is chaired by a member of the Operating Committee, meets quarterly. This year it considered a broad range of issues, including:

• our approach to an overarching human rights policy;
• our due diligence processes when it comes to winning business;
• the Modern Slavery Act 2015;
• our supply chain; and
• specific human rights issues arising from day-to-day business.
We’re developing an enhanced human rights due diligence tool for our global sales team. We’ve also undertaken detailed human rights impact assessments on a number of potential business opportunities. As a result, we took a range of mitigating steps such as including detailed contractual provisions, integrating human rights considerations into customer training and ongoing project monitoring. We’ve also turned down business opportunities on the basis of human rights concerns.

**Our relationship with HM Government**

We’re one of the largest suppliers of networked IT services to the UK public sector. We work with more than 1,400 organisations across central, local and devolved government, healthcare, police and defence to provide some of the UK’s most vital services. For example:

- We run N3, the National Health Service’s secure national network.
- We provide telecoms services to the Ministry of Defence and contact centre and conferencing services to the Department for Work and Pensions.
- We’ve recently started working with the NHS Islington Clinical Commissioning Group and the London Borough of Islington to provide a service that will help join up health and social care in Islington and improve the experience of care for the borough’s residents.
- We’re working with Bromley Council to deliver computer and data centre services which will help provide them with greater flexibility in running their IT services.
- We’re working with the Government to extend fibre broadband to rural areas under the Broadband Delivery UK (BDUK) scheme.
- In December, EE was awarded a contract to provide the emergency services with nationwide 4G voice and data services.

We can be required by law to do certain things and provide certain services to the Government. For example, under the Communications Act, we (and others) can be required to provide or restore services during disasters. The Civil Contingencies Act 2004 also says that the Government can impose obligations on us (and others) at times of emergency or in connection with civil contingency planning.

The Secretary of State for the Home Department can also require us to take certain actions in the interests of national security.

**Regulation**

Communications and TV services are regulated by governmental and non-governmental bodies in the UK and around the world. This is to make sure that CPs and broadcasters comply with common standards and rules, and that nobody is disadvantaged by providers with strong positions in their markets.

**European Union (EU) regulation**

In EU countries, electronic communications networks and services are governed by directives and regulations set by the European Commission (EC). These create a Europe-wide framework (known as the European Common Regulatory Framework) covering services such as fixed and mobile voice, broadband, cable and satellite TV.

The directives include rules covering:

- access and interconnection;
- universal service obligations; and
- a requirement for national regulators to review markets for significant market power (SMP) every three years and to put appropriate and proportionate SMP remedies in place.

Companies with SMP typically have a market share of 40% or more and would, without regulation, be able to do things such as increase prices without losing business to competitors (as would happen in a fully competitive market). The directives also cover how regulators should impose remedies to prevent the exercise of SMP, for example by setting price controls. The rules require national regulators to consult with the EC on any remedies before they are finalised to make sure they’re consistent with European regulations.

Functional separation of the access network from downstream businesses is included in the EU Common Regulatory Framework list of remedies. But it’s positioned as an exceptional remedy, requiring a high burden of proof of market failure, and is subject to EC approval. Structural separation, unless self-imposed, is not included.

**Review of the European Common Regulatory Framework**

In May 2015, the EC announced its strategy for the Digital Single Market which includes a plan to review the European Common Regulatory Framework. As part of this review, the EC will assess how to encourage investment in infrastructure and how to make current telecoms and media rules fit for new challenges and new types of service provider. The EC is also reviewing copyright and content policy. Any changes are expected to be implemented by mid-2017.

**UK regulation**

The UK telecoms and broadcasting industries are regulated primarily by Ofcom (the UK’s independent regulator) within the framework set by the various European directives, the Communications Act 2003 (the Communications Act) and other UK and EU regulations and recommendations.

The telecoms sector is subject to an extensive ex-ante regulatory framework set out under the European Common Regulatory Framework. By contrast, broadcasting and pay-TV is only currently subject to a mixture of separate, specific regulation and general competition law.

**The Communications Act and Ofcom**

The Communications Act gives Ofcom legal powers and sets out how electronic communications and broadcasting services should be regulated in the UK. It includes the conditions set by the European directives.

**Ofcom’s main duties**

- To further the interests of citizens in relation to communications matters.
- To further the interests of consumers in relevant markets, where appropriate, by promoting competition.
Under the powers of the Communications Act, Ofcom sets conditions that CPs must comply with. Some conditions, known as General Conditions, apply to all CPs. These mainly deal with:

- protecting consumers;
- access and interconnection;
- planning for emergencies;
- providing information to Ofcom; and
- allocating and transferring phone numbers.

Other conditions apply to certain companies that are universal service providers or which Ofcom has decided have SMP in a particular market. We’re the designated universal service provider for the UK (except for the Hull area where it is KCOM Group) and so we have certain obligations. The main one is to make sure that basic fixed-line services are available at an affordable price to all consumers. We’re also obliged to provide public payphones, although we can remove those that are uneconomic (subject to local consultation and agreement by local authorities).

We have SMP in a number of markets including Business Connectivity (such as Ethernet and backhaul), Fixed Access (including LLU, GEA and WLR) and Wholesale Narrowband (such as Call Origination). Ofcom’s market reviews are therefore very important for us.

Following a market review, if Ofcom decides that a CP has SMP, it can put controls in place, typically on the prices which the CP can charge. Ofcom will generally try to set charges that are reasonably based on costs and an appropriate return on the capital invested.

CPs affected by Ofcom decisions can appeal them through a number of routes, including to the Competition Appeal Tribunal (CAT) or to the High Court.

**BT’s Undertakings**

In response to Ofcom’s 2005 Strategic Review of Telecommunications we gave some legally-binding undertakings under the Enterprise Act 2002. These Undertakings (which included the creation of Openreach) began in September 2005. They aim to give clarity and certainty to the UK telecoms industry about the way we provide wholesale regulated products. This in turn supports effective and fair competition in related retail markets.

**Ofcom’s Strategic Review of Digital Communications**

Ofcom announced in March 2015 that, ten years on from the last one, it would carry out a new strategic review, this time of the wider digital communications industry.

The review looks at ways to improve investment, innovation and sustainable competition across fixed-line, broadband and mobile markets, and at ways to ensure that where regulation is necessary it is targeted, with deregulation elsewhere. Ofcom has also looked at ways of empowering consumers.

On 25 February 2016, Ofcom published its initial conclusions:

- Ofcom sees passive access to Openreach’s underground ducts and telephone poles as key to its future competition policy, especially to encourage investment in fibre-to-the-premises by other companies. Ofcom wants an improved process for getting access to this infrastructure, including an online database of its location, condition and capacity.

- Ofcom wants a strengthened model of functional separation of Openreach so that it can take its own decisions on budget, investment and strategy, in consultation with the wider industry.

- Ofcom intends to introduce: tougher rules on faults, repairs and installations; transparent information on service quality; and automatic compensation for consumers when things go wrong.

- Ofcom will work with the Government to deliver a new universal right to fast, affordable broadband for every household and business in the UK. Also, when Ofcom releases spectrum for mobile operators, it intends to impose obligations to improve rural mobile coverage.

We’ve made a number of proposals to Ofcom to address its concerns. These include a new governance structure for Openreach and a clear commitment on investment. We’re happy for other companies to use our ducts and poles which have been open to competitors since 2011.

**Overseas regulation**

The degree of regulation in international markets varies widely. This can hinder our ability to compete and provide the services our customers require. We’re pressing incumbent operators around the world, and their national regulatory authorities, for fairer, cost-related wholesale access to their networks.

We’re also in discussions with both EC and US regulatory authorities over what we believe to be premature deregulation of parts of the US telecoms market. This has made it more difficult for non-US CPs to enter and compete in the US, while European telecoms markets remain open to competition from US operators.

**Price regulation of our main wholesale products**

The following table shows the main wholesale products provided to CPs which are subject to price controls in markets where we have been found to have SMP.

<table>
<thead>
<tr>
<th>Product</th>
<th>Annual charge control</th>
<th>Current charge control ends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call origination</td>
<td>RPI–3.6%</td>
<td>30 September 2016</td>
</tr>
<tr>
<td>Call termination</td>
<td>RPI–3.1%</td>
<td>30 September 2016</td>
</tr>
<tr>
<td>Ethernet</td>
<td>CPI–13.5%</td>
<td>31 March 2019</td>
</tr>
<tr>
<td>PPCs</td>
<td>CPI–3.5%</td>
<td>31 March 2019</td>
</tr>
<tr>
<td>WLR rental</td>
<td>CPI–3.0%</td>
<td>31 March 2017</td>
</tr>
<tr>
<td>IPStream rental</td>
<td>CPI–4.4% in Market A+ only</td>
<td>31 March 2017</td>
</tr>
<tr>
<td>MPF rental</td>
<td>CPI+0.3%</td>
<td>31 March 2017</td>
</tr>
<tr>
<td>SMPF rental</td>
<td>CPI–33.4%</td>
<td>31 March 2017</td>
</tr>
</tbody>
</table>

*Wholesale broadband services are regulated in Market A which covers 9.5% of UK premises. Market B covers the remaining premises and is competitive and unregulated.

Our wholesale fibre broadband product, GEA, is not currently subject to price regulation. This will be reviewed again in Ofcom’s Wholesale Local Access market review, expected to begin later in 2016, with a final decision due by 1 April 2017.
Other regulatory decisions and activities

Business Connectivity market and cost attribution
In April 2016, Ofcom published its final statement on its Business Connectivity Market Review, Leased Lines Charge Control and Cost Attribution Review. The key measures Ofcom imposed are:

- charge controls to apply from 1 May 2016 until 31 March 2019;
- the introduction of minimum service levels for the provision of Ethernet services by Openreach;
- requiring Openreach to provide access to its fibre network for providers of high-speed leased lines for businesses ('dark fibre').

In setting the charge controls, Ofcom made a number of base year cost adjustments to reflect its Cost Attribution Review assessment that some of our attribution methodologies do not reflect the activity that drives the cost. This is also likely to affect future price controls, including in the Wholesale Local Access and Narrowband markets.

Ethernet dispute
In August 2015, the Court of Appeal granted us permission to appeal the CAT’s August 2014 decision relating to a dispute on historical Ethernet pricing that was originally determined by Ofcom in 2012. Our appeal was granted on three legal grounds, including whether Ofcom had the power to require us to make the payments it determined in the dispute and if it has the power to award interest charges on these payments. Ofcom has deferred its final determination on the amount of interest payable until the Court hears the appeal, which we expect to take place in March 2017.

In November 2015, the Court of Appeal also granted TalkTalk permission to appeal the CAT’s August 2014 decision.

Margin squeeze test
In May 2015, we lodged an appeal with the CAT against the design of Ofcom’s regulatory margin squeeze test which requires BT Consumer to maintain a ‘minimum margin’ on newly-acquired fibre broadband customers.

In August 2015, Ofcom issued supplementary guidance on how the ‘minimum margin’ test in respect of fibre broadband would be impacted by a material change in circumstances (such as the launch of our UEFA Champions League and UEFA Europa League content). While we welcome this guidance, it still doesn’t provide enough flexibility around how we recover our BT Sport costs. And we believe it doesn’t address concerns previously raised by the European Commission around providing us sufficient flexibility to recover these costs.

In March 2016, the CAT issued its judgment on our appeal. The CAT found that Ofcom was entitled to impose a regulatory margin squeeze test as one of the remedies in its Fixed Access Market Review, and rejected our arguments that Ofcom had not met the legal or evidential tests to impose such a condition. Our appeal on the design of the margin squeeze test is being heard by the CMA and its provisional determination is expected in the coming months.

Pay-TV
We’re appealing to the CAT Ofcom’s November 2015 decision to remove Sky’s Wholesale Must Offer obligation on Sky Sports. We believe that effective remedies are essential to address the failure of competition in the pay-TV market, where Sky has held a dominant position for more than a decade.

Broadband USO
In March 2016, the UK Government began a consultation on a broadband Universal Service Obligation (USO) that will require a minimum line speed of 10Mbps to be provided. In April 2016, at the Government’s request, Ofcom began a consultation on the design of the USO including: whether there should be one or more designated USO providers; whether there should be a competitive process for designating USO providers; and whether the net costs of a USO should be funded by industry. Ofcom plans to report back to the Government by the end of 2016.

Regulatory approval of our acquisition of EE
In February 2015 we announced that we’d agreed definitive terms to acquire EE. This transaction was subject to approval by BT shareholders and merger clearance, in particular from the UK Competition and Markets Authority (CMA). In October 2015, the CMA gave its provisional clearance to the deal, announcing that it is not expected to result in a substantial lessening of competition in any market in the UK. The CMA gave formal approval, unconditionally without remedies, on 15 January 2016.

Protecting the environment
We believe that the Information and Communications Technology (ICT) industry plays a vital and ever-growing role in tackling climate change6. As set out in a report6 published this year, we believe increased investment in ICT can reduce UK carbon emissions by 24% by 2030, while creating value for the UK economy (£122bn in that year). Reflecting our role in this area, we also organised and took part in working sessions at the UN climate negotiations in Paris (COP21).

We launched 100% Sport at Climate Week in New York, encouraging sports fans to switch to renewable energy and promoting our support for the global #go100percent campaign (created by the Renewables 100 Policy Institute).

Our 2020 ambition
Enable customers to reduce their carbon emissions by at least three times the end-to-end carbon impact of our business 3:1

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6 As a signatory to the Climate Disclosure Standards Board’s (CDSB) fiduciary duty and climate change disclosure, we summarise our response to climate change through this Annual Report with more details in our Delivering Our Purpose report, www.btplc.com/Purposefulbusiness/Stories/Energyenvironment/UKcarbontargets/index.htm

Reducing our customers’ carbon footprint\textsuperscript{a,b}

We continue to progress towards our 3:1 goal, measuring the impact our products and services can have on reducing our customers’ carbon emissions.

This year we generated £3.6bn of revenue from products that have contributed to carbon abatement – up from £3.4bn in 2014/15. As an example, our Field Force Automation services enable organisations with mobile teams to improve their productivity by automating fleet and driver scheduling and reporting. This means they can better manage their fleet of vehicles, saving fuel and reducing emissions.

<table>
<thead>
<tr>
<th>3:1 Goal</th>
<th>2015/16\textsuperscript{a}</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer savings</td>
<td>7.6 Mt</td>
<td>7.1 Mt</td>
</tr>
<tr>
<td>Our impact</td>
<td>4.8 Mt</td>
<td>4.6 Mt</td>
</tr>
<tr>
<td>Ratio</td>
<td>1.6:1</td>
<td>1.5:1</td>
</tr>
</tbody>
</table>

Our own energy use and carbon footprint\textsuperscript{a,b}

Reducing our energy use

We’ve reduced our worldwide energy use for the seventh consecutive year. In Great Britain we spent around £307m on energy and fuel this year (2014/15: £306m). We estimate that our energy savings programme has helped reduce our overall bill by £29m this year, and by £190m since 2009/10. 95% of the worldwide energy we buy comes from renewable sources and we’re aiming to achieve 100% – where markets allow – by the end of 2020.

Reducing water usage

Most of our water usage is for office and catering facilities, or to cool equipment (for example, in telephone exchanges). Most of our water usage is for office and catering facilities, or to cool equipment (for example, in telephone exchanges).

Conserving natural resources\textsuperscript{a,b}

Reducing water usage

Most of our water usage is for office and catering facilities, or to cool equipment (for example, in telephone exchanges). This year we reduced our UK water consumption by 10%. We’ll continue to target and reduce leaks using our half-hourly meter readings, provided by our automatic monitoring and reporting programme.

Managing waste products

We try to minimise the amount of materials we use in our operations, and re-use them where we can. Otherwise our specialist contractors recycle them wherever possible, or manage their disposal – including hazardous materials such as oil and some types of light bulbs and batteries – in line with legislation.

\textsuperscript{a} We restate previous years’ data when subsequent information is deemed to be materially significant, such as replacing previous estimates with measured figures.

\textsuperscript{b} EE data is excluded, in line with the GHG protocol below, pending next year’s report when we will provide new baseline numbers.

\textsuperscript{c} We use the GHG Protocol Corporate Accounting and Reporting Standard, with UK Government GHG Conversion Factors for Company Reporting 2015.

\textsuperscript{d} We report on all our greenhouse gas emissions as a single total, by converting them to the equivalent amount of CO\textsubscript{2} using latest government conversion factors.

\textsuperscript{e} Detailed emissions data is available from our Delivering Our Purpose website, www.bt plc.com/PurposefulBusiness. To comply with revised GHG Protocol guidance this year, we now report both market and location-based Scope 2 data. This chart uses a market-based measure for 2015/16, consistent with the methodology used in previous years.
Our performance as a sustainable and responsible business

The first table below demonstrates our performance against our six 2020 ambitions. Below that, we report progress against seven foundation measures. Next year, we aim to maintain or improve on each of our ambitions and measures. To aid comparison against previous years, we exclude EE’s contribution to the group this year, but we’ll provide new baseline numbers in our 2016/17 Annual Report.

Our 2020 ambitions

<table>
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<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting charities and communities</td>
<td>£86m raised for good causes</td>
<td>£94m raised for good causes</td>
<td></td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>Cumulative total: £234m since 2012</td>
<td>Cumulative total: £327m since 2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inspire 66% (two-thirds) of our people to volunteer</td>
<td>26% of BT people volunteering</td>
<td>27% of BT people volunteering</td>
<td></td>
<td>52</td>
</tr>
<tr>
<td>Creating a connected society</td>
<td>7.5 out of 10</td>
<td>8.5 out of 10</td>
<td></td>
<td>38</td>
</tr>
<tr>
<td>Helping 10m people overcome social disadvantage through the benefits our products and services</td>
<td>n/a – new target</td>
<td>2.6m people reached</td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>Creating a culture of tech literacy</td>
<td>n/a – new target</td>
<td>344,000 children reached</td>
<td></td>
<td>34</td>
</tr>
<tr>
<td>Delivering environmental benefits</td>
<td>1.5:1 achieved</td>
<td>1.6:1 achieved</td>
<td></td>
<td>44</td>
</tr>
</tbody>
</table>

Our foundation measures

<table>
<thead>
<tr>
<th>Our foundations</th>
<th>2014/15 performance</th>
<th>2015/16 performance</th>
<th>Status</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our investment</td>
<td>1.15% of PBT invested</td>
<td>1.10% of PBT invested</td>
<td></td>
<td>38</td>
</tr>
<tr>
<td>Customer service: to consistently improve RFT across our entire customer base</td>
<td>4.7% improvement</td>
<td>3.0% reduction (see page 22)</td>
<td></td>
<td>22</td>
</tr>
<tr>
<td>Employee engagement index: our relationship with our employees</td>
<td>3.82/5 achieved</td>
<td>3.81/5 achieved</td>
<td></td>
<td>33</td>
</tr>
<tr>
<td>Sickness absence rate: % of calendar days lost to sickness</td>
<td>2.23% calendar days lost to sickness</td>
<td>2.33% calendar days lost to sickness</td>
<td></td>
<td>44</td>
</tr>
<tr>
<td>Ethical performance: our employees’ awareness and training</td>
<td>4.33/5 achieved</td>
<td>4.31/5 achieved</td>
<td></td>
<td>32</td>
</tr>
<tr>
<td>Ethical Trading: across our supply chain, with focus on Human Rights.</td>
<td>96% follow-up within three months</td>
<td>100% follow-up within three months</td>
<td></td>
<td>40</td>
</tr>
<tr>
<td>CO₂e emissions: a measure of our climate change impact. We’ll reduce our worldwide CO₂e emission intensity by 80% by December 2020</td>
<td>79% reduction in net CO₂e emission intensity vs. base levels (1996/97)</td>
<td>81% reduction in net CO₂e emission intensity vs. base levels (1996/97)</td>
<td></td>
<td>44</td>
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To find out more about our 2020 ambitions, our methodologies and how our results are calculated, take a look at www.btplc.com/Purposefulbusiness
Our risks

We’re affected by a number of risks and uncertainties. Some risks come from outside our business, others from within. Some we can’t control. Many of our risks are similar to those felt by comparable businesses.

Principal risks and uncertainties
The principal risks and uncertainties that affect us could have an impact on our business, brand, assets, revenue, profits, liquidity or capital resources. The principal risks we described last year have evolved, and so has our response to them.

Our Enterprise Risk Management framework gives reasonable (but cannot give absolute) assurance that we’ve identified and addressed our biggest risks. However, there may be some risks which are unknown to us today. And there may be some that we consider less significant now but which become more important later.

Things that happen outside BT present both risks and opportunities, to our business and to others. We focus our efforts on predicting and mitigating those risks while aiming to take advantage of any opportunities that may emerge.

We recognise the particular uncertainty that political and geo-political risks present, both in the UK (like the forthcoming referendum on Britain’s membership of the EU) and globally. We monitor these through a separate sub-committee of our Group Risk Panel.

In the section that follows, we talk about what we’re doing to stop our main risks materialising, or to limit their impact. Our biggest risks and uncertainties should be considered alongside the risk management process, the forward-looking statements in this document and the cautionary statement on those statements (see page 248).

How we manage risk
To meet our objectives, build shareholder value and promote our stakeholders’ interests, we must manage risk.

We have a group-wide risk management process with four stages. The directors believe our Enterprise Risk Management framework and process support a robust assessment of our principal risks.

Changes over the year
In 2014/15 we improved the way we manage risk by: strengthening our approach to managing it in projects and programmes; further developing our assessment of risk appetite; and identifying opportunities to develop our risk management culture. Specific improvements in 2015/16 included:

UK Corporate Governance Code
Responding to changes in the UK Corporate Governance Code, we’ve refreshed several aspects of our risk management framework. That included expanding our quantification methodology and reviewing our material controls.

Enhanced tools
This year we’ve trialled software which helps with modelling risk. We’re also in the process of upgrading our core risk management software to make it easier for people to use.

Education and awareness
We believe risk management is an essential capability for our business. It’ll therefore be a core skill across all the professions in our business with tailored training for everyone who works for BT.

Enterprise Risk Management framework

Our lines of business and BT TSO follow our process for managing risk as part of our Enterprise Risk Management framework. That means identifying and responding to the key risks to their business. They record the risks in a register for their leadership teams to review. Audit & risk committees in each line of business, BT TSO and our group functions, ensure this process is effective.

The Group Risk Panel supports the Board and the Operating Committee. Every three months it reviews the Group Risk Register (which summarises those risks of greatest significance across our business), considers the inclusion of new or emerging risks, and recommends ways to tackle them. It also oversees the work of the group risk management function. Geo-political risks are reviewed by a sub-committee of the Panel.

The Operating Committee identifies, evaluates, responds to and monitors risks. Significant risks are reported and monitored through the Group Risk Register. The Operating Committee assigns a management owner to take charge of monitoring and managing each risk. It monitors risks through regular detailed reviews as well as six-monthly reviews of the Group Risk Register.

The Board has overall responsibility for making sure we manage risks appropriately. It regularly reviews, either directly or through the Audit & Risk Committee, how we’re doing across the group, in our lines of business and in BT TSO.
Strategic and financial risks

Growth in a competitive market
Our markets are characterised by:
- constant and rapid change;
- strong and new competition;
- falling prices and (in some markets) falling revenues;
- technology changes;
- market and product convergence;
- customers moving between providers; and
- regulation to promote competition and cut wholesale prices.

Potential impact
If we don’t grow our revenue profitably and sustainably, our cash flows could be impacted. This could limit our ability to invest in the business or pay dividends.

How we’re mitigating the risks
We stick to our strategy, which means:
- broadening and deepening our customer relationships;
- delivering superior customer service;
- transforming our costs; and
- investing for growth.

If we do that, we’ll grow our revenue profitably and sustainably.

We’ve been investing in areas like fibre, TV and content, voice and mobility, UK business markets, and our global corporate customers. Our cost transformation programmes are still delivering savings. We can also seek changes in regulation to make things fairer – so we can compete harder in neighbouring markets, which will be better for our customers.

Communications industry regulation
Regulation affects a lot of what we do.

In the UK, after market reviews, Ofcom can make us provide wholesale services on specified terms. Ofcom reviews the shape and size of that regulation every three years and can include controls on the price we charge for regulated products. It can investigate and enforce any regulatory rules in place and impose fines on us if we don’t comply.

Ofcom also has powers to regulate the terms on which we get supplied with certain services – for instance, mobile call termination and wholesale access to certain pay-TV channels. This can increase our costs and affects the scope of services we can provide to customers. Ofcom can also sort out disputes between us and other communications providers about the terms on which services are supplied.
Outside the UK, general licensing requirements can make it tough for us to enter markets and compete. Regulation will also define the terms on which we can buy wholesale services from others.

**Potential impact**

Regulatory rules can affect our ability to compete effectively and earn revenues. UK regulation has the biggest impact – because we have to supply wholesale access products on regulated terms.

Around £5.7bn of our revenue (£3.3bn of which is to downstream parts of BT) is from supplying wholesale services to markets where Ofcom has found us to have significant market power. Most of these revenues are from products with regulated prices which we also have to cut each year by a defined, real-term percentage. The regulatory controls usually last for three years and hold back revenues during that time.

Where other CPs ask Ofcom to sort out disputes with us, there’s a risk that Ofcom may set the prices we supply services at, and/or make us provide specific services. In some circumstances, Ofcom can adjust past prices and make us pay back CPs.

Regulation outside the UK can hit our revenue too. For example, overly-restrictive licensing requirements or ineffective regulation of access to other networks mean we might not be able to compete fairly. Regulation can also define and control the terms of access to necessary regulated inputs, which raises our costs.

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**What’s changed over the last year?**

There has been a lot of regulatory activity in different areas. We’ve summarised this in the Regulation section on page 41.

Alongside the standard cycle of market reviews, in March 2015 Ofcom announced an overarching strategic review of the digital communications market. In February 2016 it set out its initial conclusions. Some of these could impact our operations, revenues and costs if they’re adopted, for example:

- strengthening Openreach’s functional separation;
- keeping structural separation on the table;
- reducing regulation where it’s no longer required; and
- relying on more end-to-end fibre-based competition.

**How we're mitigating the risks**

Our team of regulatory specialists include economists and accountants. Together with legal experts and external advisers they continuously check for potential disputes with other CPs and look for opportunities to change regulatory rules. They talk continually with regulators and other key influencers to understand the outlook and to make sure we make our positions clear.

We push for fair, proportionate, consistent and evidenced-based regulation everywhere we do business. Whenever there are market reviews, charge controls, and disputes or investigations we put forward evidence and analysis. This helps us manage the risks around decisions in any particular year.

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We can appeal any regulatory decisions we think are wrong. We can also raise disputes or complain (under the relevant regulatory framework or competition law) where we have problems getting access to wholesale services – like to wholesale pay-TV channels or to other access networks.

**Pensions**

We have a large funding obligation to our main defined benefit pension scheme in the UK, the BT Pension Scheme (BTPS or Scheme). The BTPS faces similar risks to other defined benefit schemes. Things like future low investment returns, high inflation, longer life expectancy and regulatory changes may all mean the BTPS becomes more of a financial burden.

**Potential impact**

Our contributions to the BTPS are next due to be reviewed at the triennial funding valuation as at 30 June 2017. If there’s an increase in the pension deficit, then we could have to increase deficit payments into the Scheme. That might affect our share price and credit rating. If our credit rating fell in future, it would cost us more to borrow money and we might not get such flexible borrowing terms. Higher deficit payments could mean less money available to invest, pay out as dividends or repay debt as it matures.

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**Link to strategy and business model**

- Transform our costs  
  Trend: 
- Invest for growth

**What’s changed over the last year?**

The last triennial valuation of the BTPS, as at 30 June 2014, provided certainty over what we need to pay until the next triennial valuation is concluded.

Things like financial market conditions and expected future investment returns at the valuation date affect the funding position. When considering expected future returns, different factors are reviewed including yields (or returns) on government bonds, which have dropped significantly since 30 June 2014. If a lower future investment return is assumed at the next valuation our liabilities would likely go up, which may lead to bigger deficit payments.

EE operates the EE Pension Scheme (EEPS) which has a defined benefit section that was closed to future benefit accrual in 2014. The EEPS represents less than 2% of the group’s retirement benefit obligation. The latest funding valuation for the EEPS is being performed as at 31 December 2015.

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**How we're mitigating the risks**

The investment performance and liability experience are regularly reviewed by both us and the Trustee of the BTPS. We also consider the associated risks and possible mitigations. The assets of the BTPS are well diversified, softening the impact of sharp drops in the value of individual asset classes. This helps us maintain a reasonable balance of risk and return.

Our financial strength and cash generation provide a level of protection against the impact of changes in the funding position of the BTPS. The funding liabilities also include a buffer against future negative experience, as legislation requires that liabilities are calculated on a prudent basis.
Security and resilience
Resilient IT systems, networks and associated infrastructure are essential to our commercial success. There are a lot of different hazards that could significantly interrupt our services.

These include the evolving threat of cyber-attack, as hackers increasingly see Internet Service Providers (ISPs) as attractive targets. Others include component failure, physical attack, copper cable or equipment theft, fire, explosion, flooding and extreme weather, power failure, overheating or extreme cold, problems encountered during upgrades and major changes, and suppliers failing to meet their obligations.

Potential impact
A malicious cyber-attack or breach of security could mean our data is lost, corrupted, disclosed or ransomed, or that our services are interrupted. We might have to pay fines, contract penalties and compensation, and have to operate under sanctions or temporary arrangements while we recover and put things right.

A big interruption to our services, from cyber-attack or otherwise, could mean immediate financial losses from fraud and theft; contract cancellations; lost revenue from not being able to process orders and invoices; contractual penalties; lost productivity and unplanned costs to restore and improve our security; prosecution and fines. Ultimately individuals’ welfare could be put at risk where we weren’t able to provide services or personal data was misappropriated.

Our revenues, new business and cash flow could suffer, and restoring our reputation and re-building our market share might take an extended period of time.

How we’re mitigating the risks
We use encryption to prevent unauthorised access to data travelling over our networks, or through direct access to computers and removable storage devices.

But encryption alone can’t eliminate this risk. People can be tricked into downloading malware or giving away information by phone or email. So we also implement extra layers of access control, block as many malicious emails as we can, and run awareness campaigns for customers and employees to make sure they stay vigilant.

We ask suppliers for evidence of compliance with our security policies. We also run an audit programme to test this. We simulate cyber-attacks to test how well protected our web sites, networks and internal controls are.

A control framework helps us prevent service interruptions, supported by tried and tested recovery capabilities. Proactive problem management helps us address the root causes of common incidents.

We continue to invest in resilience and recovery capabilities for critical IT systems, as well as addressing vulnerabilities in our physical estate as we become aware of them. We also have a rolling programme of major incident simulations to test and refine our procedures for crises.

By replacing equipment approaching the end of its service life, we’re moving more of our legacy estate to new, more resilient facilities. We’ve also made sure that we have geographically-distributed locations that support cross-site recovery.

What’s changed over the last year?
We’ve invested in scanning and monitoring tools and automated cyber defences. But the rate of major cyber-related incidents needing a manual response keeps rising. We’ve increased the size of our Cyber Defence Operations team accordingly. To probe for vulnerabilities they simulate cyber-attacks. When we learn of potential attack routes, or get intelligence about attacks on similar organisations, we treat the information proactively and resolve it with the same speed and rigour as a real attack.

We’ve reviewed the resilience and disaster recovery capability of our critical systems, main data centres and our most important exchanges. This has helped us make judgements on where to invest in better and stronger systems and infrastructure. We’re also continuing to develop cross-site recovery for our critical systems where this didn’t previously exist. There are also several major change programmes underway to intensify IT and network controls to meet new levels of risk.
Major contracts
We have a number of complex and high-value national and multinational customer contracts. The revenue and profitability of these contracts are affected by things like: variation in cost; achieving cost savings anticipated in contract pricing (both in terms of scale and time); delays in delivering or achieving agreed milestones owing to factors either in or out of our control; changes in customers’ requirements, their budgets, strategies or businesses; and our suppliers’ performance. Any of these factors could make a contract less profitable or even loss-making.

The degree of risk varies with the scope and life of the contract and is typically higher in the early stages. Some customer contracts need investment in the early stages, which we then expect to recover over the life of the contract.

Major contracts often involve implementing new systems and communications networks, transforming legacy networks and developing new technologies. Delays or missed milestones might have an impact on us recovering these upfront costs. There is substantial performance risk in some of these highly-complex contracts.

Potential impact
If we don’t manage and meet our commitments under these contracts – or if customers’ needs, budgets, strategies or businesses change – then our expected future revenue, profitability and cash generation may go down. Unexpectedly high costs associated with delivering particular transformational contracts could also hit profitability. Earnings may drop. Contracts may even become loss-making through loss of revenue, changes to customers’ businesses (due to, for example, mergers or acquisitions), business failure or contract termination.

We’re still delivering lots of contracts with local authorities through regional fibre deployment programmes including the Broadband Delivery UK programme (BDUK). As with our other major contracts, if we failed to deliver these contracts successfully it might lead to reduced future revenue, profitability and cash generation.

As well as carrying a higher reputational risk, these contracts present specific risks around deployment, delivery and our ability to recover public funding. We also have an obligation to potentially either reinvest or repay grant funding depending on lots of different factors – including how many customers take up a new service.

What’s changed over the last year?
Tough market conditions and competitive pressures continue in many global regions, while in some we’re seeing bigger growth in volume of business because of our previous investments. The risk landscape changes accordingly, as does our focus of risk support and review.

Of particular note for 2015/16 has been the way the BDUK programme has helped UK broadband fibre implementation mature, cutting the associated delivery risks. But these risks have partly been replaced by new challenges from the next tranche of smaller contracts (with their associated geographic and technical risks). While our broadband contracts carry a different risk profile to other major corporate contracts, we apply our governance and reporting processes to make sure we identify risks and mitigation activities and report them to management.

How we’re mitigating the risks
At both group and line of business-level we have governance, risk management and reporting processes in place. Independent audits and the checks and balances in individual contracts provide assurance through an independent review programme. To track progress, we monitor how we’re doing on these risks and mitigation actions and report it to senior management. A separate, dedicated team provides assurance for our BDUK projects.

The BT Academy helps support skills development and learning initiatives. These help our Contract Management Profession to better identify and manage risk. We also update new training collateral whenever we learn something new. The scope and availability of training options continues to improve through BT-wide learning and development initiatives.

Supply chain
Our supply market is global, and there are often several links in our supply chains. So guaranteeing the integrity and continuity of those links is critical to our operations and therefore a big risk to our business.

Global markets expose us to global risks, including climate change. We weigh up and respond to any risks which crop up where geopolitical and market forces could affect our suppliers’ ability to support us.

A global supply market means better sourcing opportunities, but brings challenges if suppliers become more geographically and culturally diverse from our customers.

Our dealings with suppliers – from the way we choose them, to the contracts we sign, to how we pay them – follow our trading and ethical policies. For more detail, see Our suppliers on page 39.

Potential impact
If something goes wrong in our supply chain the level of impact can vary. But most of the time it means higher costs for us, and potential damage to our customer service, investments and ultimately our brand. We could lose a lot of money if a big or important supplier went out of business, especially if that meant us having to change a technology or system. And if we couldn’t find an alternative supplier, it might compromise the commitments we make to our customers. And that might lead to breach of contract, lost revenue or penalties.

If any link in our supply chain fails foul of the law, or fails to meet our ethical expectations, that could damage our reputation – possibly leading to legal action and lost revenue.

What’s changed over the last year?
We’ve spent time assessing several emerging geo-political threats and the impact they’d have on our supply chain. They include Greece’s position in the Eurozone and the UK’s position in the EU.
There’s a continuing trend toward mergers and acquisitions in some of the global markets we source from. It highlights the risk of us depending on single or monopolistic suppliers – particularly those less constrained by regulation and who might charge us more than their domestic customers.

There’s generally an increasing (and welcome) focus on human rights. The Modern Slavery Act 2015 means we must examine the potential risk of both modern slavery and human trafficking in our supply chain. Another ethical consideration is the risk of conflict minerals being in our supply chain, which would not only go against our ethical standard but could also harm our reputation.

**How we’re mitigating the risks**

We have a few really critical suppliers. We keep a close eye on their performance and ability to meet their obligations. We tell the business when to prepare for the risk of a supplier failing. And our senior leaders continually review how ready we are for those types of events.

We make sure we put in place the right due diligence when it comes to introducing new suppliers and to continuing business with existing ones. That includes checks on company finances, business and quality management systems, accreditations, and ethical and sustainability practices. We manage our top suppliers according to the contracts they’ve signed. We work with them to drive better ways of working every day, reducing our exposure to risks around poor supplier practices.

**Case study: Early intervention to deliver major contracts**

If we don’t establish strong contract and risk management at the start of a contract, it can have longer-term impacts on contract profitability and customer experience.

**How we managed the risk**

Contracts are generally getting more complex. To reduce contract risk, in 2015 we introduced a new team of contract mobilisation specialists. Their aim is to make sure large and complex contracts get off to a good start.

The team works exclusively on new contracts. They take a hands-on approach to improving and supplementing the way we manage contracts in their early stages. That helps make sure the in-life contract team has the level of planning and implementation capability it needs.

**The result, and what we learned**

There’s a strong link between contracts beginning well and us meeting our customers’ expectations. So our mobilisation specialists’ job is to cut the service delivery risk and the likelihood of implementation delays.

Our contract leads don’t begin new multi-year contracts that often, so they’re not always familiar with the huge volume of very detailed and time-critical actions unique to the first few weeks. But given how many of those types of contract we sign each year, it helps having a team with the right expertise and skills solely focused on supporting this activity.
Compliance risks

Business integrity and ethics
We’re proud of our high ethical standards. We don’t tolerate bribery. We don’t tolerate any forms of corruption. We follow a wide range of local and international anti-corruption and bribery laws — in particular the UK Bribery Act and US Foreign Corrupt Practices Act (FCPA). Both these pieces of legislation have extraterritorial reach, so cover our global operations. As we expand globally, we’re increasingly operating in countries seen as having a higher risk of bribery and corruption. We also have to make sure we follow trade sanctions and import and export controls.

Potential impact
If BT people, or associated people like suppliers or agents break anti-corruption, bribery or sanctions legislation there could be big penalties, criminal prosecution and significant brand damage. This could have a major or minor impact on future revenue and cash flow depending on the nature of the breach, the legislation concerned and any penalties. If we were accused of corruption or bribery or violating sanctions regulations that could lead to reputational damage with investors, regulators and customers.

What’s changed over the last year?
More and more countries are bringing in anti-corruption and bribery legislation. In the UK, the Serious Fraud Office is now able to bring in deferred prosecutions agreements for fraud, bribery and other economic crime. In terms of enforcement, there are yet to be any big cases stemming from the UK Bribery Act, but US FCPA generates a lot of enforcement actions.

How we’re mitigating the risks
We’ve put a number of controls in place to address risk in this area. These include an anti-corruption and bribery programme and ‘The Way We Work’ (our statement of business practice, available in 14 languages). We ask all BT people to sign up to its principles and to our anti-corruption and bribery policy. We have policies covering gifts, hospitality, charitable donations and sponsorship. We run training for people in higher-risk roles like procurement and sales.

We regularly weigh up our business integrity risks to make sure we’ve got the right mitigation in place. ‘Speak Up’ (our confidential hotline) is operated by a third party with all reports passed straight to our Director of Ethics and Compliance for investigation.

Our internal audit team regularly runs checks on our business. External providers also assess areas we think are higher risk, to make sure people understand our policies and that controls are working. We do selective due diligence checks on third parties like suppliers, agents, resellers and distributors. Procurement contracts include anti-corruption and bribery clauses.

Our policy helps us follow all sanctions and export controls that apply to us. That policy means all bids involving a country with sanctions imposed by the EU and/or the US need approval. The policy also mandates everyone uses our internal shipping system to arrange international exports. That system runs compliance checks and flags any orders which need an export licence.

Processing our customers’ data
We control and process huge quantities of customer data around the world. So sticking to data privacy laws is something we take extremely seriously. Every day we process the personal data of millions of customers. It’s important that those individuals and businesses feel they can trust us to do the right thing with their data.

Being trusted with our customers’ data goes further than making sure it’s secure. It means preserving the integrity of the personal data we process. And only keeping the things we need to provide customers with the services they’ve signed up for. It also means being transparent around how we use that data, making sure the way we process personal data is legal, fair and in line with customers’ rights and wishes.

As a communications provider we operate under a stringent 24-hour reporting regime to tell the UK Information Commissioner’s Office (ICO) if we become aware of a personal data security breach. We must also tell any affected individuals as quickly as possible.
Different parts of the world approach privacy and data protection differently. Individuals’ fundamental right to privacy is reflected in the fact that today data privacy laws are in force in over 100 countries. More and more we (and other multinationals) have to show that we’re handling personal data in line with a complex tangle of national data laws and societal ethical expectations.

Potential impact
Failing to stick to data protection and privacy laws could result in possible regulatory enforcement action, fines, class-action, prison sentences and the regulator telling us to stop processing data.

On top of that, we could see huge reputational damage and big financial losses. Those losses could come from fines and damages if we fail to meet our legal requirements, as well as costs resulting from having to close customer contracts and the subsequent customer churn. Companies who’ve had high profile ‘data incidents’ have seen their share price hit hard, and suffered ongoing costs from their non-compliance.

**What’s changed over the last year?**
National regulators are more aggressively protecting their citizens’ privacy and data protection rights. They’re especially targeting companies who fail to do due diligence, or who knowingly accept (or ignore) a related risk for too long. This has been brought into sharp focus by the mushrooming of the data threat environment, with several big organisations suffering incidents.

There’s been a general trend toward bigger financial penalties and more frequent public shaming for organisations that break global privacy and data protection laws. The UK Information Commissioner now issues more penalties than Ofcom.

**How we’re mitigating the risks**
We’ve introduced governance to clarify accountabilities and responsibilities for data activities across the whole business. People, processes and technology have been our core areas of focus. By embedding this governance, we’re reinforcing our expectations around personal data with our people, partners and third parties.

The cornerstone of our education and training programme is making sure our people understand our data governance culture and the impact of data risks on our business. Our mandatory data training focuses on individuals’ roles, with relevant scenarios, helping highlight the varying data risks of different BT job families. By educating our technical and commercial units we’ve made a step change in understanding data risks across the group.

We want to give our people the tools they need to make everyday risk-based decisions around privacy and data protection without it being a burden or making their job more complicated. Because if we do that, there’s a much better chance of data compliance being ‘business as usual’. For example, using Privacy Impact Assessments when we develop new products and services makes sure everyone understands privacy issues from the start and builds in the right controls, without any operational impact.

Supporting the third-line assurance of our Internal Audit team, the Chief Privacy Officer and his team are a second line of defence. They undertake an annual cycle of audit and monitoring. That is overseen by the BT Compliance Programme Panel, who track and monitor everything until completion.

**Health & safety**
Our business – and in particular our vast engineering workforce – does a lot of work which is subject to health and safety regulation and enforcement by national authorities.

**Potential impact**
If we failed to implement and keep up effective health and safety management and governance, that could have a big impact on our people and our finances. It could lead to people getting injured, work-related sickness and service disruption for customers. It could also lead to our people and third parties making compensation claims against us, or fines or other sanctions if we didn’t stick to health and safety regulation. There could even be criminal prosecutions against us, our directors and our people – all of which would harm our brand and business.

And of course an unhappy or unhealthy workforce also leads to higher work absence rates and lower performance levels.

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**What’s changed over the last year?**
The range and complexity of risks has gone up as we’ve offered new services to our customers. Those risks include us doing more construction and electrical engineering work on our own network, and the fact that we have new contracts which need our people to work to maintain and extend the UK’s mobile network. We’ve taken a lot of steps to mitigate these risks – especially around how our people work with electricity or high off the ground.

We’re building a plan to further embed health and safety into our operations. In the past year, we’ve seen major legislative change – particularly with the UK introducing Construction, Design and Management Regulations which place new responsibilities on organisations around making construction work safer. We’ve worked with the UK regulator and others in our sector to respond pragmatically to these demands. We’ve faced increased enforcement action against us this year, and also a few prosecutions initiated for past incidents.

**How we’re mitigating the risks**
For the past five years we’ve busied ourselves implementing a Board-endorsed health, safety and wellbeing strategy. And each year, each line of business produces its own health and safety plan with its own targets and programmes.

Our people managers take responsibility for making sure their teams know how to comply with health and safety standards. We monitor compliance using annual licensing, scheduled refresher training, competency assessments and accreditation processes for higher risk groups. All BT people do training in basic health and safety.
Wherever we do business around the world, we put in place policies and programmes to make sure we stick to our own standards and that those standards meet or exceed minimum legal requirements.

Advice is provided to help management teams understand and control health and safety risks and help everyone feel involved in health, safety and wellbeing. We’ve created interventions to help promote good mental health and physical wellbeing. We also provide support and rehabilitation services for people who have mental or physical health issues. And we complement these measures with strong attendance management processes.

Case study: Privacy by design

Privacy by design is about building privacy into products and services. It helps organisations understand their privacy and data protection obligations. It also indicates a positive data compliance culture. The way we do privacy by design is through our Privacy Impact Assessment tool.

How we managed the risk

This year, we took a phased approach to embedding Privacy Impact Assessments within our various lines of business, starting with BT Consumer.

At the heart of our process is an online tool which each new product or service proposition must go through. It identifies what the proposition involves, what personal data is in scope and whether third parties will access that data. It also asks other tailored questions around marketing, big data analytics and customer communications. All that provides an initial insight into the risks.

Our privacy team follow this with an extra one-to-one review for more complex propositions. They must formally sign them off before they can move forward and get further development funding. This means our Privacy Impact Assessment process must be quick to make sure we can move fast to exploit commercial opportunities.

The result, and what we learned

From small system changes (for example in marketing) to large-scale projects (like our SmartTalk app) we’ve created Privacy Impact Assessments in line with industry best practice.

The Privacy team has had to learn to prioritise how they review Privacy Impact Assessments to meet launch timescales. The tool itself has been through various versions to make sure it meets the needs of people using it, with stage gates speeding up the flow of approval and sign off.

It’s likely we’ll need extra changes as we move to confirming the EU General Data Protection Regulation and what that’ll mean for our business. But the Privacy Impact Assessment tool’s flexibility will let us do that with minimal impact on the business.

Our viability statement

Assessment of prospects

An understanding of the group’s business model and strategy are central to assessing its prospects, and details can be found on pages 21 to 30.

Our business model provides resilience that is relevant to any consideration of our prospects and viability. We have a broad spread of customers and suppliers across different geographic areas and market sectors, serving the needs of customers across 180 countries worldwide. In the UK, we benefit from diversification across a number of markets and products, which has increased in recent years, most notably through the launch of BT Sport and the acquisition of EE.

Our strategy of delivering superior customer service, transforming our cost base and investing for growth are all designed to support long term and sustainable cash flow growth.

We assess our prospects on a regular basis through our financial planning process. Our three-year Medium Term Plan forecasts the group’s profitability, cash flows and funding requirements. The Medium Term Plan is reviewed by the Board twice during the year and the latest refresh includes forecasts related to our newly-acquired EE business. The Medium Term Plan is built from the ‘bottom up’ forecasts of each of our lines of business, supplemented by items managed at a group level and assumptions such as macro-economic activity and exchange rates. The performance of the group and our lines of business against these forecasts is monitored monthly and this is supplemented each quarter through a series of ‘deep dive’ Business Unit Reviews performed by the Operating Committee.

Viability statement

In accordance with provision C2.2 of the 2014 revision of the UK Corporate Governance Code, the directors have assessed the prospects and viability of the group.

Although the directors have no reason to believe that the group will not be viable over a longer period, the Board has chosen to conduct this review for a period of three years to 31 March 2019. The Board believes this is an appropriate timeframe as it aligns with the group’s financial planning processes.

In support of this statement, we have stress tested our forecast cash flows by assessing the potential combined impact our most significant risks could have on these forecasts. This assessment was informed by our judgements as to the potential financial impact of these risks if they materialise, together with their likelihood of occurrence.

Our stress testing confirmed that in many of the scenarios tested, existing projected cashflows and cash management activities provide us with a buffer against the impact of these risks. In the most extreme scenarios we tested, where all of our principal risks are assumed to materialise over the three-year period, we have considered the further actions we could take to mitigate the negative cash flow impact and generate additional funding. These actions could include, for example, sale of assets, limiting or delaying discretionary capital expenditure and marketing activities, restricting share buy back programmes and reducing or ceasing dividend payments.

In our viability assessment we’ve adopted a number of assumptions designed to stress test our resilience. For example, in making our assessments of the impact and likelihood of our risks, we’ve only taken into account the control activities that we have in place today. We’ve not factored in any of the extensive future mitigation activity that we’re undertaking to address these risks, thereby assuming such activity proves ineffective. We’ve also assumed that existing debt facilities which mature over the three-year period will not be renewed. While we don’t expect this to happen, we’ve adopted these pessimistic assumptions to add greater stress to our viability testing.

Based on the results of this analysis, the directors have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.
EE acquisition risks

Our acquisition of EE has introduced additional risks for BT beyond those captured in our principal risks and uncertainties. This year, given the acquisition has only recently completed, we’ve set out these risks separately. As the EE risks become more embedded in our Enterprise Risk Management framework, we’ll integrate the reporting of these risks into our review of our principal risks and uncertainties.

Risks related to the acquisition

Although a number of the risks EE faces are similar in nature to those potentially impacting BT, there are also distinct risks that the group now faces that BT has not previously perceived to be significant threats.

This section outlines some of those new risks and uncertainties, but it is not exhaustive.

Realising acquisition synergies

We are targeting significant synergies from the acquisition, including operating cost savings and capital expenditure savings. Integrating the respective businesses is also expected to give rise to further benefits. These include fixed-mobile convergence, the ability to serve customers through a single, seamless platform supported by a single IP network, and being able to offer BT products to EE customers and EE products to BT customers.

The group’s success will depend, in part, on the effectiveness of the integration process and the ability to realise the anticipated benefits and synergies from combining the businesses. Some of the potential challenges in integrating the businesses may not be known at this stage. If these challenges cannot be overcome, for example because of unforeseen difficulties in implementing fixed-mobile convergence or a lack of customer demand for the offerings, the anticipated benefits of the acquisition will not be fully achieved.

Realisation of synergies will depend partly on the rapid and efficient management and co-ordination of the activities of the group’s businesses. We may experience difficulties in integrating EE with our existing businesses and may not realise, or it might take longer than expected to realise, certain or all of the perceived benefits of the acquisition. There’s also a risk that synergy benefits and growth opportunities from the acquisition may fail to materialise, or may be materially lower than have been estimated. In addition, the costs of generating these synergies may exceed expectations. Further, we may not achieve the revenue or profitability that justify the original investment, which could result in material, non-cash write-downs. Failure to deliver the anticipated synergies and business opportunities could have a material adverse effect on our businesses, financial conditions and results of operations, including our ability to support our pension deficit, service our debt or to pay dividends.

Competition in the mobile market

Competition in the UK mobile telecommunications market is intense. Competition results from, among other things, the existence of established mobile network operators, market entry of alternative and lower cost carriers (such as mobile virtual network operators), technology developments (such as Voice over Internet Protocol (VoIP)), and the ability of other providers to bundle mobile phone services with different products and content (such as broadband and pay-TV). In particular, technologies such as VoIP and so-called ‘over-the-top’ platforms (such as iMessage, Facetime, Blackberry Messenger, WhatsApp and Facebook Messenger) could reduce voice and/or text messaging traffic on mobile networks, which could lead to significant price and revenue reductions.

Increased competition has led to a decline in the prices which EE charges for its mobile services and is expected to lead to further declines in pricing in the future. Competition could also lead to a reduction in the rate at which we add new mobile customers, a decrease in the size of our mobile market share and a decline in the group’s service revenue as customers choose to receive telecommunications services or other competing services from other providers. Also, there’s a risk of increased customer churn as a result of the transition away from the legacy T-Mobile and Orange brands and any potential changes to the branding in future. Churn could also increase as a result of potential Ofcom changes to the mobile switching regime in the UK. An increase in churn rates could adversely affect profitability because we would experience lower revenue and/or additional selling costs to replace customers or recapture lost revenue.

Delays in the deployment of new technologies

Our operations will depend partly on the successful deployment of continuously evolving telecommunications technologies, including handsets and network compatibility and components. EE uses technologies from a number of vendors and incurs significant capital expenditure deploying these technologies. There can be no assurance that common standards and specifications will be achieved, that there will be interoperability across networks, that technologies will be developed according to anticipated schedules, that they’ll perform according to expectations or that they will achieve commercial acceptance. The introduction of software and other network components may also be delayed. The failure of vendor performance or technology performance to meet our expectations or the failure of a technology to achieve commercial acceptance could result in additional capital expenditure, or a reduction in profitability.

Technology change and market acceptance

We may not succeed in making customers sufficiently aware of existing and future services or in creating customer acceptance of these services at the prices we would want to charge. Also, we may not identify trends correctly, or may not be able to bring new services to market as quickly or price-competitively as our competitors.

These risks exist in the mobile telecommunications area (eg mobile data services) and in non-mobile telecommunications areas (eg mobile payment services based on contactless technology) where there is a risk that differences in the regulatory treatment of different operators, based on their choice of technology, could put us at a competitive disadvantage.

Further, as a result of rapid technological progress and the trend towards technological convergence, new and established information and telecommunications technologies or products
may not only fail to complement one another but in some cases, may even become a substitute for one another. An example of this is the risk that ‘over-the-top’ services (being those which are provided by a third party to the end-user device) develop substitutes for our own products and services. Another example is VoIP, a technology that is already established in the business environment and which has now reached the consumer market. The availability of mobile handsets with VoIP functionality may adversely affect our pricing structures and market share in our mobile voice telephony business. If we don’t appropriately anticipate the demand for new technologies, and adapt our strategies, service offering and cost structures accordingly, we may be unable to compete effectively, which may have an adverse effect on our business and operations.

Supplier and joint venture failure
EE has a number of suppliers identified as critical. EE is also party to a complex and critical network-sharing arrangement with Hutchison 3G UK Limited. The failure of this joint operation to fully support our interests and goals, or any material disruption to the operation of the EE network sharing arrangement, could cause significant harm to our business.

As demand for smartphone and tablet products increases around the world, there could be shortages in the volume of devices produced as a result of insufficient manufacturing capacity, the lack of availability of internal components such as processors or major supply chain disruptions. This may result in delays in the supply chain which in turn may have an adverse effect on our business and operations.

Regulation and spectrum
Regulators, including Ofcom, set annual licence fees for spectrum bands used by EE for voice calls, and data services. In future spectrum auctions, the costs of acquiring spectrum could increase or we may be unsuccessful in our bids. Any significant increases in spectrum pricing which apply to us could have a material adverse effect on our business and results of operations.

EE has been found to have significant market power in some areas of wholesale call termination following market reviews and, as is the case for all MNOs, EE’s wholesale mobile termination rates are therefore regulated by Ofcom. The scope and form of the regulation is reviewed every three years.

EE is also subject to UK and European Union consumer-focused regulation in areas including: the international roaming services provided by EE; processes for consumer switching and non-geographic numbering call services. This regulation may affect the group’s market share, competitive position, future profitability and cash.

As technology and market dynamics develop and as the mobile business of EE is integrated into BT, a wider range of existing regulations will apply to us and a broader range of new and/or modified regulations may be directed at us.

Network, licence and technology investment
EE (as well as the rest of BT to a lesser extent), has made substantial investments in the acquisition of licences and EE has invested in its mobile networks, including modernising its 2G network, the upgrade of its 3G network and the continued expansion of its 4G network. We expect to continue to make significant investments in our mobile networks due to increased usage and the need to offer new services and greater functionality. We may acquire new spectrum licences with licence conditions, which may include network coverage obligations or increased licence fees. Accordingly, the rate of our capital expenditure and costs in future years could increase and exceed those expected or experienced to date.

There can be no assurance that new services will be introduced according to anticipated schedules or that the level of demand for new services will justify the cost of setting them up (in particular, the cost of new spectrum licences and network infrastructure, for example, for 4G services and subsequent evolutions). Failure or a delay in completing networks and launching new services, or increases in the associated costs, could have an adverse effect on our business and operations and could result in significant write downs of the value of network spectrum or other licences or other network-related investments.

If the current economic climate worsens, we may decide, or be required, to scale back capital expenditure. A lasting reduction in capital expenditure levels below certain thresholds could affect our ability to invest in mobile telecommunications networks (including additional spectrum), new technology and other BT businesses and so could have an adverse effect on our future growth and the value of radio spectrum.

Transmission of radio waves from mobile telephones, transmitters and associated equipment
Media reports have suggested that radio frequency emissions from wireless mobile devices and mobile telecommunications sites may cause health issues, including cancer, and may interfere with some electronic medical devices, including hearing aids and pacemakers. Research and studies are ongoing. According to the World Health Organisation’s Fact Sheet Number 193, last reviewed in October 2014, there are no known adverse effects on health from emissions at levels below internationally recognised health and safety standards. However, we cannot provide assurance that research in the future will not establish links between radio frequency emissions and health risks.

Whether or not research or studies conclude that there is a link between radio frequency emissions and health, popular concerns about radio frequency emissions may discourage the use of wireless devices, impairing our ability to retain customers and attract new customers, and may result in restrictions on the location and operation of mobile communications sites and the usage of our wireless technology. These concerns could also lead to litigation against us. Any restrictions on use or litigation could have an adverse effect on our business and operations.
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.
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\(^b\) by line of business

As at 31 March 2016

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Employees(^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT TSO and other</td>
<td>18,500 or 18%</td>
</tr>
<tr>
<td>BT Global Services</td>
<td>7,900 or 8%</td>
</tr>
<tr>
<td>BT Business</td>
<td>6,500 or 6%</td>
</tr>
<tr>
<td>BT Consumer</td>
<td>12,800 or 13%</td>
</tr>
<tr>
<td>EE</td>
<td>1,300 or 1%</td>
</tr>
<tr>
<td>Openreach</td>
<td>31,500 or 31%</td>
</tr>
</tbody>
</table>

\(^b\)Full-time equivalent of full and part-time employees.

Internal reorganisation

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

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 business 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>Manufacturing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Sector</td>
<td>Media and Business Services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Automotive</td>
<td>Retail and Consumer Goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy and Resources</td>
<td>Technology and Telecoms</td>
<td></td>
<td></td>
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<tr>
<td>Healthcare and Life Sciences</td>
<td>Travel, Transport and Logistics</td>
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</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

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate customers</td>
<td>52%</td>
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<tr>
<td>(excluding financial</td>
<td></td>
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<tr>
<td>institutions)</td>
<td></td>
</tr>
<tr>
<td>5%</td>
<td></td>
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<tr>
<td>Transit</td>
<td></td>
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<tr>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Other global carriers</td>
<td></td>
</tr>
<tr>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Public sector</td>
<td></td>
</tr>
<tr>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Financial institutions</td>
<td></td>
</tr>
</tbody>
</table>
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.

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.

Sources:
\(^a\) Gartner, Forecast: IT Services, Worldwide, 2014–2020, 1Q16 Update (March 2016).
\(^c\) IDC, Western Europe Unified Communications as a Service 2013 Market Analysis and 2014–2018 Forecast (September 2014).
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:

- **Innovation from BT**
- **Service from BT**
- **Industry propositions**

**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 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 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 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.

**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 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.
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 Wirelesss 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 networked 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 time. We were also ranked a Leader in IDC’s MarketScape Worldwide Telecom Service Provider 2015 Vendor Assessment.b

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 feedback loop with 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 feedback loop with a regular gauge of customer experience. Customers are asked for feedback via email in a simple format at key points of interaction.
- We are 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.

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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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 suite, 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>Operating revenue excluding transit</td>
<td>(2)%</td>
<td>(4)%</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 lever 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 Computer; 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:

<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>

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:

- BT Business Solutions
  - UK SMEs, corporates, some public-sector organisations
  - Typically customers have 250-5,000 employees

- 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

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:

<table>
<thead>
<tr>
<th>Business</th>
<th>Providing</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT IT Services</td>
<td>IT hardware and networked IT solutions, managed and support services, and consulting services.</td>
</tr>
<tr>
<td>BT Business Direct</td>
<td>IT and communications hardware and software, including computing and networking equipment, sold online.</td>
</tr>
<tr>
<td>BT Expedite</td>
<td>Specialised IT services for the retail sector.</td>
</tr>
<tr>
<td>Tikit</td>
<td>Bespoke IT products and services for legal and accountancy firms.</td>
</tr>
</tbody>
</table>

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, Gamms, KCOM Group, O2, TalkTalk, Unicom, Virgin Media, Vodafone and XLN.

There are 7.7m (2014/15: 7.7m) business lines in UK, including those used by both SMEs and large corporates. 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, Dimension 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.

<table>
<thead>
<tr>
<th>Market size and BT Business share</th>
<th>£bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed-voice and dataa</td>
<td>3.1</td>
</tr>
<tr>
<td>Mobility inc EEb,</td>
<td>2.4</td>
</tr>
<tr>
<td>IT servicesc</td>
<td>0.6</td>
</tr>
</tbody>
</table>

BT Business | Rest of market

Source: BT Business revenue and IDC market sizing model.

This table illustrates the business markets served by BT. The table is based on BT’s definition of business customers which exclude services to other communications providers.

a 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.

b Mobility market size excludes devices and is formalised mobile contracts only.

c IT services market size includes only the product and service portfolio we address for the 2,500 to 5,000 employee segment. The revenue that is used 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, suited to 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.

### BT Business 12-month rolling order intake

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 Q1</td>
<td>2,100</td>
</tr>
<tr>
<td>2015 Q2</td>
<td>2,000</td>
</tr>
<tr>
<td>2015 Q3</td>
<td>1,900</td>
</tr>
<tr>
<td>2015 Q4</td>
<td>1,800</td>
</tr>
<tr>
<td>2016 Q1</td>
<td>2,200</td>
</tr>
<tr>
<td>2016 Q2</td>
<td>2,100</td>
</tr>
<tr>
<td>2016 Q3</td>
<td>2,000</td>
</tr>
<tr>
<td>2016 Q4</td>
<td>1,900</td>
</tr>
</tbody>
</table>

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>

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.
**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</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></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><strong>Operating costs</strong></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><strong>Operating profit</strong></td>
<td>£878</td>
<td>£861</td>
<td>£805</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>£138</td>
<td>£187</td>
<td>£127</td>
</tr>
<tr>
<td><strong>Operating cash flow</strong></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>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home phone</td>
<td>37%</td>
</tr>
<tr>
<td>Broadband</td>
<td>33%</td>
</tr>
<tr>
<td>Pay-TV</td>
<td>6%</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

<table>
<thead>
<tr>
<th>Service</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay-TV</td>
<td>58%</td>
</tr>
<tr>
<td>Freeview or Freesat</td>
<td>42%</td>
</tr>
</tbody>
</table>

‘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, btsport.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 1.3m 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.

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.

**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**

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>351</td>
</tr>
<tr>
<td>2015</td>
<td>415</td>
</tr>
<tr>
<td>2016</td>
<td>446</td>
</tr>
</tbody>
</table>

**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.*
### 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>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.

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.

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.

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 Hutchison (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.

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>O2</td>
<td>32%</td>
</tr>
<tr>
<td>EE</td>
<td>32%</td>
</tr>
<tr>
<td>Vodafone</td>
<td>25%</td>
</tr>
<tr>
<td>Virgin Mobile</td>
<td>12%</td>
</tr>
<tr>
<td>Tesco Mobile</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: EE and market data.

* September 2015.
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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 trialling 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.

Customer base by type

<table>
<thead>
<tr>
<th></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*

<table>
<thead>
<tr>
<th></th>
<th>000</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 29 January 2016</td>
<td>30,461</td>
</tr>
<tr>
<td>Postpay</td>
<td>46</td>
</tr>
<tr>
<td>Prepay</td>
<td>77</td>
</tr>
<tr>
<td>M2M</td>
<td>21</td>
</tr>
<tr>
<td>Fixed broadband</td>
<td>28</td>
</tr>
<tr>
<td>MVNO</td>
<td>30,040</td>
</tr>
<tr>
<td>At 31 March 2016</td>
<td>30,605</td>
</tr>
</tbody>
</table>

* Period from the acquisition of EE on 29 January 2016 to 31 March 2016.
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 ARPU in the period was £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.

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.

Inputs, outputs and outcomes

1. 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.

2. 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.

3. 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.

Revenue market share of European wholesale telecommunications providers

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.

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.

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.

Voice minutes carried by IPX

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>bn</td>
<td>6</td>
<td>12</td>
<td>19</td>
<td>26</td>
</tr>
</tbody>
</table>

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.
Customer satisfaction rose to 85% in the fourth quarter, up from 80% for the same period last year. It improved across all customer segments. But our Right First Time performance, which measures our ability to deliver orders and repair faults on time, was down by 2.6% (2014/15: up 4.4%). This was as a result of the weather and systems outages mentioned on page 22.

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.

**Deliver superior customer service**

Customer satisfaction rose to 85% in the fourth quarter, up from 80% for the same period last year. It improved across all customer segments. But our Right First Time performance, which measures our ability to deliver orders and repair faults on time, was down by 2.6% (2014/15: up 4.4%). This was as a result of the weather and systems outages mentioned on page 22.

**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.

“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</th>
<th>2015</th>
<th>2014</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

<table>
<thead>
<tr>
<th>Exchange</th>
<th>FTTC</th>
<th>PCP</th>
<th>DP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 5,500 exchanges</td>
<td>101,000 PCPs</td>
<td>&lt;4.7m DPs</td>
<td></td>
</tr>
</tbody>
</table>

- *Fibre* | *Copper* | *FTTC* | *PCP* | *DP* | *Distribution point*

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 customers to connect homes and businesses. Our largest customers include Sky, TalkTalk and BT Consumer.

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.

**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.

Ofcom’s target of 95% superfast coverage by the end of 2017.

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.

<table>
<thead>
<tr>
<th>Total UK broadband market</th>
<th>As at 31 March</th>
</tr>
</thead>
<tbody>
<tr>
<td>m</td>
<td>2012</td>
</tr>
<tr>
<td>20.9</td>
<td>21.9</td>
</tr>
</tbody>
</table>

*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.

Copper-based services
- Wholesale Line Rental (WLR) lets CPs offer phone services to their customers using our equipment and copper network. They pay to use the lines between our exchanges and the customer premises but don’t need to invest in their own network equipment or infrastructure.
- Local Loop Unbundling (LLU) involves CPs installing their own equipment in our exchanges and renting the copper line to the customer building. CPs can use our shared metallic path facility (SMPF) product to offer broadband over a WLR line or our metallic path facility (MPP) product to offer phone and broadband services using just their equipment.

Ethernet
Our Ethernet products offer dedicated fibre connections with speeds up to 100Gbps. CPs use them to complete their own networks and to provide high-quality, high-bandwidth services to businesses and the public sector.

- Ethernet Access Direct (EAD) 10Gbps Standard and Local Access were launched in Autumn 2015, bringing affordable, high-capacity services to UK business and infrastructure markets.
- Optical Spectrum Access (OSA) Hub and Spoke also launched this year. It means CPs can deploy high-bandwidth services more efficiently and cost effectively to multiple sites, saving the customer space and power.

Infrastructure solutions
Our infrastructure solutions let CPs build their own networks.

- Our Flexible Co-mingling Product allows CPs to place their equipment in our exchanges, providing their customers with voice, broadband and Ethernet services.
- Passive Infrastructure Access (PIA) products offer CPs access to Openreach’s infrastructure such as our ducts and telephone poles. CPs can use PIA when building their own fibre networks. This product has been available since 2011.
- Mobile Infill Infrastructure Solution (MiIS) helps mobile network operators improve their coverage. We install antennas on telephone poles linked to a special street cabinet provided with power and backhaul. Mobile operators can then install their radio equipment in the cabinet and use their spectrum to improve mobile coverage.
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.
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>Q4 2015/16</th>
<th>Q4 2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Home</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New lines installed on time</td>
<td>☑️</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>
<tr>
<td><strong>Business</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<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.

Improvement:

¬ Steady performance – maintaining focus
¬ Further improvement needed – plans in place to get back on track
Transform our costs
Operating costs increased 1% (2014/15: 2% decrease) with an increase in volumes, pay inflation and leaver costs partly offset by cost efficiencies.

This year we:
• improved our processes and invested in new systems and tools that reduce the number of engineering jobs and unnecessary customer contacts;
• negotiated improved terms with our key suppliers and insourced activities where possible. This saves us money and means we can use our people more effectively;
• transformed our desk-based functions by consolidating our teams from over 400 locations down to 28 larger ‘centres of excellence’. This means we can run them more efficiently, share best practice and create better working environments;
• successfully launched the ‘View my Engineer’ tool; and
• worked closely with our suppliers to help reduce the number of orders awaiting completion.

Invest for growth
We have invested £10.5bn in Britain’s digital infrastructure in the last ten years, committing over £3bn to create a fibre broadband network that provides affordable high-speed broadband to the vast majority of the UK.

We’ve set out our vision to move the nation from superfast to ultrafast speeds with an ambition that 12m homes and businesses will get access to ultrafast services by the end of 2020. We will deliver ultrafast through a mix of two technologies: G.fast and FTTP. We launched G.fast trials in Huntingdon, Gosforth and Swansea, which are progressing well, with homes and businesses taking part getting speeds of up to 330Mbps. We’ve also announced additional G.fast pilots in Cherry Hinton and Gillingham which will cover 25,000 homes and businesses by March 2017. Finally we’ve introduced several trials across the country to improve the way we provide FTTP connections. We see FTTP becoming a much larger part of our network, in particular for new sites, apartment blocks, small businesses and some rural areas.

We invested 54% more than last year on connecting new sites and providing Ethernet. We continue to invest to extend, upgrade and maintain our copper network which underpins most of the services we provide in the UK. We’ve increased preventative maintenance spend by 22% year on year. This investment will make our network less susceptible to faults in future years.

This year we invested in hiring over 1,000 people including around 280 apprentices and graduates.

Financial performance
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.

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 though 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 networks which we sell to many of the top companies in the world.

We design, build and operate 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 base 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.
Group performance

In this section we explain how we’ve done this year against our key performance indicators. We set out the group’s financial results for the year; what we’ve focused on, and what we’ve achieved.

**Progress against our KPIs**
While we’ve again delivered strong financial results this year, our customer service was not good enough.

**Our financial performance**
Our financial strength has given us the ability to make investments that are delivering for the business.

**Bold decisions**
Our acquisition of EE is already having a big effect on how we do business and we’re pleased with its performance since joining the group.

**Alternative performance measures**
We judge and explain our performance using certain alternative performance measures. These include trends in underlying revenue and operating costs excluding transit, adjusted and reported EBITDA, adjusted earnings per share, normalised and reported free cash flow and net debt. ‘Adjusted’ means that a measure is before specific items. We describe on page 240 what we mean by specific items and we’ve disclosed specific items for this year and the last two years in note 8 to the consolidated financial statements.

These alternative performance measures are not defined under IFRS so they’re termed ‘non-GAAP’ measures. But they’re consistent with how management measures the group’s financial performance. We’ve defined each of these measures on pages 240 to 242, where we’ve provided more detail, including reconciliations to the nearest measure under IFRS.
“The investments we’ve been making have driven our strong financial performance this year. EE has made a significant contribution to our results in the two months since we acquired the business at the end of January.”

I’m pleased to say our key measure of the group’s revenue trend, underlying revenue excluding transit (which by definition excludes EE), was up 2%. That’s our best performance in more than seven years, and at the top end of our outlook range of 1% to 2% growth. And we’ve again delivered EBITDA and free cash flow growth, in line with the outlook we set at the start of the year.

BT Consumer revenue was up 7% reflecting 17% growth in broadband and TV revenue, benefiting from our investments in BT Sport and BT Mobile. Openreach revenue was up 2% with fibre broadband growth more than offsetting regulatory headwinds. And we met the milestone of bringing fibre broadband to 25m premises; this means, including other service providers, 90% of the UK can now access the speeds that it offers.

We’ve continued to make further cost savings, helped by major end-to-end programmes across our lines of business. We’re confident there’s plenty more we can do and we see the opportunity to take well over £1bn out of our gross costs over the next two years.

We grew adjusted EBITDA to £6.6bn, including £0.3bn from EE. Adjusted profit before tax was £3.5bn, up 9%, and adjusted EPS of 33.2p was up 5%.

Normalised free cash flow was £3.1bn, up 9%, helped by EE. Our ability to generate strong cash flow from the business has supported our growth and investment ambitions.

And finally, we’re already making good progress on integrating EE. We now see the opportunity to deliver synergies of around £400m a year from the EE integration, 10% more than before and at a lower cost than we originally expected. We’re refreshing our organisation to make sure we can deliver the best possible outcome for our customers and have made these changes with effect from 1 April 2016 (see page 58).

Tony Chanmugam
Group Finance Director
4 May 2016

Performance against our outlook
At the start of the year we published our outlook, which was for BT excluding EE. We refined this at our third quarter results to reflect our expectations for revenue growth. We’ve met our commitments.

These measures also impact directors’ remuneration. So we have assessed our financial performance for the year against the targets that we set, excluding the impact of the EE transaction and its subsequent contribution to our group results.

2015/16 performance against our outlook, excluding the impact of EE

<table>
<thead>
<tr>
<th></th>
<th>Outlook</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in underlying revenue excluding transit*</td>
<td>Up 1%–2%</td>
<td>Up 2%</td>
</tr>
<tr>
<td>Adjusted EBITDA*</td>
<td>Modest growth</td>
<td>Up 1%</td>
</tr>
<tr>
<td>Normalised free cash flow*</td>
<td>c£2.8bn</td>
<td>£2.84bn</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>Up 10%–15%</td>
<td>Up 13%</td>
</tr>
<tr>
<td>Share buyback</td>
<td>c£300m</td>
<td>£315m</td>
</tr>
</tbody>
</table>

\* Defined on page 240.

Outlook for 2016/17 and 2017/18

<table>
<thead>
<tr>
<th></th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in underlying revenue excluding transit*</td>
<td>Growth</td>
<td>Growth</td>
</tr>
<tr>
<td>Adjusted EBITDA*</td>
<td>c£7.9bn</td>
<td>Growth</td>
</tr>
<tr>
<td>Normalised free cash flow*</td>
<td>£3.1bn–£3.2bn</td>
<td>&gt;£3.6bn</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>≥10% growth</td>
<td>≥10% growth</td>
</tr>
<tr>
<td>Share buyback</td>
<td>c£200m</td>
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</table>

\* Defined on page 241.
Financial highlights

Revenue
Year ended 31 March

<table>
<thead>
<tr>
<th>£m</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>reported</td>
<td>18,487</td>
<td>18,835</td>
<td>18,487</td>
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<tr>
<td>adjusted</td>
<td>17,979</td>
<td>17,851</td>
<td>18,000</td>
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<tr>
<td>EE contribution</td>
<td>506</td>
<td>968</td>
<td>1,038</td>
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<td>Impact from EE contribution</td>
<td>17,000</td>
<td>17,203</td>
<td>18,287</td>
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Operating costs
Year ended 31 March

<table>
<thead>
<tr>
<th>£m</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tr>
<td>reported</td>
<td>13,447</td>
<td>13,177</td>
<td>12,677</td>
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<tr>
<td>adjusted</td>
<td>13,115</td>
<td>12,393</td>
<td>12,137</td>
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<tr>
<td>EE contribution</td>
<td>18,287</td>
<td>18,287</td>
<td>18,500</td>
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EBITDA
Year ended 31 March

<table>
<thead>
<tr>
<th>£m</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tr>
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<td>5,840</td>
<td>6,018</td>
<td>6,580</td>
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<tr>
<td>adjusted</td>
<td>6,116</td>
<td>6,351</td>
<td>6,880</td>
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Profit before taxation
Year ended 31 March

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<tr>
<th>£m</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>reported</td>
<td>2,000</td>
<td>2,200</td>
<td>2,400</td>
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<tr>
<td>adjusted</td>
<td>2,000</td>
<td>2,200</td>
<td>2,400</td>
</tr>
<tr>
<td>EE contribution</td>
<td>500</td>
<td>1,000</td>
<td>1,500</td>
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</table>

Earnings per share
Year ended 31 March

<table>
<thead>
<tr>
<th>pence</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tbody>
<tr>
<td>reported</td>
<td>25.7</td>
<td>28.2</td>
<td>29.9</td>
</tr>
<tr>
<td>adjusted</td>
<td>25.7</td>
<td>28.2</td>
<td>29.9</td>
</tr>
<tr>
<td>EE contribution</td>
<td>3,029</td>
<td>3,473</td>
<td>3,172</td>
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</table>

Net debt
At 31 March

<table>
<thead>
<tr>
<th>£m</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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</thead>
<tbody>
<tr>
<td>reported</td>
<td>9,845</td>
<td>7,028</td>
<td>5,119</td>
</tr>
<tr>
<td>adjusted</td>
<td>9,845</td>
<td>7,028</td>
<td>5,119</td>
</tr>
</tbody>
</table>

Free cash flow
Year ended 31 March

<table>
<thead>
<tr>
<th>£m</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>reported</td>
<td>10,000</td>
<td>10,500</td>
<td>10,200</td>
</tr>
<tr>
<td>normalised</td>
<td>10,000</td>
<td>10,500</td>
<td>10,200</td>
</tr>
<tr>
<td>Impact from EE</td>
<td>9,946</td>
<td>8,898</td>
<td>9,845</td>
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</tbody>
</table>

Capital expenditure
Year ended 31 March

<table>
<thead>
<tr>
<th>£m</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact from EE</td>
<td>2,346</td>
<td>2,236</td>
<td>2,650</td>
</tr>
</tbody>
</table>

Change in Proposed full year dividend
Year ended 31 March

| 2015 | 12.4p |
| 2016 | 14.0p |

Change | 13% (up)

---

* Items presented as adjusted are stated before specific items. See page 240 for further details.
* Before depreciation and amortisation.
* See definition on page 241 and summarised cash flow statement on page 101.
* Includes the impact of the £1.0bn equity placing we made in February 2015.
* Reflects the impact from EE. See page 102.
Group performance

Progress against our KPIs
We’ve performed well against our three financial KPIs. But our customer service performance was down 3.0%, and we want to do much better.

We use four key performance indicators (KPIs) to measure how we are doing against our strategy. Our financial KPIs measure the trend in underlying revenue excluding transit, our adjusted earnings per share; and normalised free cash flow. Customer service improvement is also a key non-financial KPI for us.

Our KPIs are chosen because they reflect the key elements of our strategy. We use these to measure the variable elements of our senior executives’ pay each year, as we’ve explained in the Report on Directors’ Remuneration (see page 128).

We’ve outlined our performance against each KPI here, together with an explanation in italics of how we define each measure. You can find reconciliations of the financial measures to the closest IFRS measure in the Additional information section on pages 240 to 242.

Profit outlook which was given at the start of the year and reaffirmed in February.

Adjusted earnings per share
We generated normalised free cash flow of £2,098m. This was up £268m compared with last year. Normalised free cash flow excluding the impact of EE was £2,837m, in line with our outlook of around £2.8bn.

Normalised free cash flow
We generated normalised free cash flow of £2,098m. This was up £268m compared with last year. Normalised free cash flow excluding the impact of EE was £2,837m, in line with our outlook of around £2.8bn.

Customer service
Our customer service measure Light First Time was down 3.0% compared with up 4.7% last year.

Overview

Trend in underlying revenue excluding transit
Our key measure of the group’s revenue trend, underlying revenue excluding transit, was up 2.0%, at the top end of our outlook range of 1% to 2%. And it’s our best growth in more than seven years.

Adjusted earnings per share
Adjusted earnings per share increased 5% to 33.2p.

Normalised free cash flow
Normalised free cash flow was £1,900m, up £48m, consistent with the statement we made in the Listing Prospectus.

Outlook for 2016/17 and 2017/18
We expect growth in underlying revenue excluding transit in 2016/17. Adjusted EBITDA is expected to be around £7.9bn, after a net investment of around £1bn in launching handset offerings to BT Mobile customers. Normalised free cash flow is expected to be £3.1–£3.2bn. This is after up to £1bn of upfront capital expenditure in the Emergency Services Network (ESN) contract, as well as around £1bn of EE integration capital expenditure.

For 2017/18, we expect growth in underlying revenue excluding transit and adjusted EBITDA. We also expect to incur capital expenditure of around £1bn on the ESN contract and around £1bn again on integration. We are confident in our cash flow generation, as a result of the investments we are currently making, the ability of our business to respond to a dynamic industry environment, and ongoing cost transformation and synergy realisation opportunities. As such, we expect to generate normalised free cash flow of more than £3.6bn in 2017/18.

We expect to grow our dividend per share by at least 10% in both 2016/17 and 2017/18. We expect to buy back around £200m of shares in 2016/17 to help counteract the dilutive effect of all-employee share option plans maturing in the year. This is below the £315m buyback we completed in 2015/16 reflecting the lower number of shares that are expected to be required for our share option plans.

Our positive revenue performance, which excludes the impact of EE, was driven by BT Consumer where revenue was up 7% reflecting 17% growth in broadband and TV revenue, helped by our investments in BT Sport Europe and BT Mobile. We explain more about the performance of our lines of business from page 57.

Underlying revenue reflects the overall performance of the group that will contribute to sustainable profitable revenue growth. We exclude the impact of acquisitions and disposals, foreign exchange movements and specific items from this measure. We focus on the trend in underlying revenue excluding transit because transit traffic is low margin and affected by reductions in mobile termination rates, which are outside our control.

Adjusted profit after tax grew 12% this year reflecting the impact of the acquisition of EE, our cost transformation activities and a lower interest expense together with a reduction in the effective tax rate from 19.9% to 17.5%.

Adjusted earnings per share grew 5% to 33.2p. The weighted average number of shares in the market increased 7% reflecting the additional shares we have issued as part of the EE acquisition.

Adjusted earnings per share is the adjusted profit after tax attributable to our shareholders, divided by the weighted average number of shares in issue. Being an ‘adjusted’ measure, it excludes the impact of specific items and as such it is a consistent way to measure the performance of our business over time.

The increases of £218m or 9% in our normalised free cash flow primarily reflects the £2.6bn generated by EE in the period since acquisition. Excluding EE, normalised free cash flow was £2.837bn, in line with our outlook.

Free cash flow is the cash we generate from our operations, less capital expenditure and finance costs. It represents the cash available to invest in the business, repay debt, support the pension scheme and pay dividends to our shareholders.

Normalised free cash flow excludes significant non-operational payments and receipts that distort the trend in our cash flow. So in calculating normalised free cash flow we take out the impact of specific items, purchases of telecommunications licences, pension deficit payments and the tax benefit from pension deficit payments.

Customer service
Our customer service measure Light First Time was down 3.0% compared with up 4.7% last year.

Target Achieved 4.7% Result^ Down 3.0%

Financial outlook which was given at the start of the year and reaffirmed in February.

^Includes impact of EE.

^Cumulative improvement since 1 April 2009.

Improving the service we deliver is key. Our ‘Right First Time’ measure was down 3.0% (2014/15: up 4.7%). This was disappointing. We’re making good steps in some areas. Openreach achieved all 60 of the minimum service level targets by 00am. But despite these improvements, we’re not where we want to be, across all of our lines of business. You can read more about our customer service on page 22.

‘Right First Time’ is our key measure of customer service. This tracks how often we meet the promises we make to our customers. This could be about keeping to appointment times, fixing faults within an agreed period or answering calls promptly and dealing with queries or orders efficiently. As well as improving service and the customer experience, keeping our promise should mean that there is less work to do in correcting our mistakes, and so reduces our costs.
Our acquisition of EE

EE being a part of the BT family is already having a big effect on what we can offer our customers (for more about EE’s operations, see page 76).

EE contributed revenue and EBITDA of £1,038m and £261m respectively to the group’s results in 2015/16.

And our balance sheet reflects the assets we’ve acquired. Consideration of £11.0bn paid on acquisition was made up of £3.5bn cash and 1,595m shares valued at £7.5bn. After a provisional fair value exercise, we’ve allocated this between goodwill of £6.4bn and net assets with a fair value of £4.6bn. You can find out more about the goodwill and purchase price allocation later in the balance sheet section, and in note 14 to the consolidated financial statements.

We’re making good progress on integrating EE into the group and have identified further synergy opportunities. We now expect operating cost and capital expenditure savings to reach around £400m in the fourth full year (previously £360m) of which we expect to realise around £100m in 2016/17. We also expect the cost of integrating EE to be lower than previously planned, at around £550m (previously around £600m). The capital expenditure part of this, including around £100m in each of 2016/17 and 2017/18, will not be treated as a specific item and will therefore be reflected in our normalised free cash flow in these years.

The financial measures we’ve used throughout the next sections include the impact of EE, unless we’ve specifically indicated otherwise. But our ‘underlying’ measures by definition exclude EE; as we’ve set out on page 240, we exclude the impact of acquisitions, disposals and foreign exchange from these.

Revenue

Our key revenue measure of underlying revenue excluding transit (which excludes EE), was up 2.0%, at the top end of our outlook range of 1% to 2%. And it’s our best growth in more than seven years.

Reported revenue, which includes specific items, was up 6%. Adjusted revenue was also up 6% at £18,909m. EE contributed £1,038m to adjusted revenue in the two months since we acquired it.

We had a £127m negative impact from foreign exchange movements, a £109m reduction in transit revenue and a £6m negative impact from disposals. Excluding these, underlying revenue excluding transit was up 2.0% (2014/15: down 0.4%).

BT Consumer revenue was up 7% with a 17% increase in broadband and TV revenue and a 2% increase in calls and lines. And the market-wide demand for fibre broadband led to a 2% increase in Openreach revenue. This was despite regulatory price impacts of around £130m.

Underlying revenue excluding transit was up 1% in BT Wholesale and down 2% in BT Global Services, whilst BT Business remained broadly flat.

You can see a full breakdown of reported revenue by major product and service category in note 4 to the consolidated financial statements.

Operating costs

Operating costs before depreciation and amortisation increased 6%, mainly because of EE.

Our total operating costs before depreciation and amortisation were £12,329m, up £749m (2014/15: down £591m). Of this £725m relates to EE with a large proportion within Other costs. For the group Other costs were up £469m or 12%, primarily reflecting EE’s subscriber acquisition and retention costs, offset by favourable foreign exchange movements.

Underlying operating costs excluding transit were up 2%. This year we no longer benefited from the sale of redundant copper and our costs were impacted by higher leaver charges (as last year most were included within specific items), a higher pensions operating charge and our investment in BT Sport Europe. Without these effects, underlying operating costs excluding transit would have been down 2%.

Income statement

Summarised income statement

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before specific items</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Revenue</td>
<td>18,909</td>
<td>17,851</td>
<td>18,287</td>
</tr>
<tr>
<td>Operating costs</td>
<td>(12,329)</td>
<td>(11,580)</td>
<td>(12,171)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>6,580</td>
<td>6,271</td>
<td>6,116</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>(2,630)</td>
<td>(2,538)</td>
<td>(2,695)</td>
</tr>
<tr>
<td>Operating profit</td>
<td>3,950</td>
<td>3,733</td>
<td>3,421</td>
</tr>
<tr>
<td>Net finance expense</td>
<td>(483)</td>
<td>(560)</td>
<td>(591)</td>
</tr>
<tr>
<td>Associates and joint ventures</td>
<td>6</td>
<td>(1)</td>
<td>(3)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>3,473</td>
<td>3,172</td>
<td>2,827</td>
</tr>
<tr>
<td>Taxation</td>
<td>(607)</td>
<td>(631)</td>
<td>(613)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>2,866</td>
<td>2,541</td>
<td>2,214</td>
</tr>
</tbody>
</table>

*Excluding depreciation and amortisation.

Operating costs before depreciation, amortisation and specific items

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>Programme and projects</td>
<td>11,580</td>
</tr>
<tr>
<td>Property and energy</td>
<td>214</td>
</tr>
<tr>
<td>POLs</td>
<td>77</td>
</tr>
<tr>
<td>Other*</td>
<td>42</td>
</tr>
<tr>
<td>Total</td>
<td>12,329</td>
</tr>
</tbody>
</table>
Programme rights charges increased £2.14m to £544m, primarily reflecting our investment in BT Sport Europe. Property and energy costs were up 7%, payments to telecommunications operators (POLOs) were up 2% and network, operating and IT costs were up 1%, with these again being impacted by EE. Net labour costs were flat despite leaver costs of £109m (2014/15: £8m), the additional EE employees joining the group and a £27m increase in the pensions operating charge.

**2015/16 operating costs**

You can see a detailed breakdown of our operating costs in note 5 to the consolidated financial statements.

**EBITDA**

Adjusted EBITDA, which is before specific items, was £6,580m. Adjusted EBITDA for the group excluding EE’s contribution of £261m was £6,319m, up 1% and in line with our outlook for the year of modest growth.

Adjusted EBITDA of £6,580m was up 5%. This reflects revenue growth, the results of EE since 29 January and our cost transformation activities and is despite the headwinds we mentioned above (see operating costs on page 98).

Adjusted EBITDA was up in Openreach, BT Business and BT Consumer. BT Global Services adjusted EBITDA was flat, but was up 1% excluding foreign exchange movements. Adjusted EBITDA was down 3% in BT Wholesale reflecting the higher ladder pricing revenues recognised last year as well as continuing migration to lower-margin IP services.

**Specific items**

As we’ve explained on page 93, in this performance review we primarily explain our results before specific items. That’s because this is how we measure the sustainable performance of our business.

The table below outlines items we’ve treated as specific items:

<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><strong>Specific revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retrospective regulatory matters</td>
<td>(203)</td>
<td>(128)</td>
<td>–</td>
</tr>
<tr>
<td>Fair value adjustment to deferred revenue on acquisition of EE</td>
<td>70</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(133)</td>
<td>(128)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Specific operating costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retrospective regulatory matters</td>
<td>203</td>
<td>75</td>
<td>–</td>
</tr>
<tr>
<td>EE acquisition-related costs</td>
<td>99</td>
<td>19</td>
<td>–</td>
</tr>
<tr>
<td>Integration costs</td>
<td>17</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Property rationalisation costs</td>
<td>29</td>
<td>45</td>
<td>–</td>
</tr>
<tr>
<td>Restructuring charges</td>
<td>–</td>
<td>315</td>
<td>276</td>
</tr>
<tr>
<td>Profit on disposal of property</td>
<td>–</td>
<td>(67)</td>
<td>–</td>
</tr>
<tr>
<td>Profit on disposal of businesses</td>
<td>–</td>
<td>(6)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>348</td>
<td>381</td>
<td>276</td>
</tr>
<tr>
<td><strong>EBITDA impact</strong></td>
<td>215</td>
<td>253</td>
<td>276</td>
</tr>
<tr>
<td><strong>Specific net finance expense</strong></td>
<td>229</td>
<td>299</td>
<td>235</td>
</tr>
<tr>
<td>(Profit) loss on disposal of interest in associates and joint ventures</td>
<td>–</td>
<td>(25)</td>
<td>4</td>
</tr>
<tr>
<td><strong>Tax credit</strong></td>
<td>(166)</td>
<td>(121)</td>
<td>(319)</td>
</tr>
<tr>
<td><strong>Net specific items charge after tax</strong></td>
<td>278</td>
<td>406</td>
<td>196</td>
</tr>
</tbody>
</table>

This year, specific items resulted in a net charge after tax of £278m (2014/15: £406m). The impact on EBITDA was £215m (2014/15: £253).

We recognised £203m of both transit revenue and costs with no EBITDA impact, being the effect of ladder pricing agreements with the UK mobile operators relating to prior years following a Supreme Court judgment in 2014. Last year, we recognised £128m of revenue and EBITDA in relation to this.

We recognised a fair value adjustment as part of the acquisition of EE which reduced the amount of deferred income by £70m in relation to its mobile subscriber base. This non-cash item has been charged against revenue in February and March, being the period in which the related services were delivered.

Specific items charged to operating costs include £99m of transaction costs we incurred to buy EE (2014/15: £19m). These were primarily adviser fees and stamp duty. We incurred a further £8m (2014/15: £7m) in financing costs. An additional £3m was directly related to the shares we issued to EE’s shareholders in January 2016 as part of the purchase consideration, so we have recognised this amount in equity. We’ve incurred £17m of costs this year in relation to the integration. In addition to this, £5m of integration activity has been included in capital expenditure.

*Excluding depreciation, amortisation and specific items.*
We recognised a £29m charge relating to the rationalisation of the
group's property portfolio.

In addition to the above, we also treated a number of other items
as specific, such as the net interest expense on pensions of £221m
(2014/15: £292m). The decrease from 2014/15 mainly reflects
a fall in the IAS 19 discount rate between 31 March 2014 and
31 March 2015.

We also recognised a tax credit of £96m for the re-measurement
of deferred tax balances due to the upcoming changes in the UK
corporation tax rate from 20% to 19% from 1 April 2017 and to
18% from 1 April 2020 (the UK Finance Bill, not yet enacted, is
expected to reduce this to 17%). There was no credit last year as
all deferred tax balances had already been remeasured at 20%.

The tax credit on specific items (excluding the re-measurement
defined tax) was £70m [2014/15: £121m].

You can see details of all revenue and costs that we have treated
as specific items in the income statement in the last three years
in note 8 to the consolidated financial statements.

Profit before tax

Adjusted profit before tax was up 9% at £3,473m.

The increase in adjusted profit before tax reflects our EBITDA
performance, and in particular the contribution from EE.

Reported profit before tax (which includes specific items) was up
15% to £3,029m.

We discuss depreciation, net finance expense and tax in later
sections of this performance review.

Earnings per share

Adjusted earnings per share increased 5% to 33.2p.

Adjusted earnings per share is one of our key performance
indicators (see pages 96 and 97) and has increased 18% over
the last two years. The graph below shows the key drivers of this
increase.

Reported earnings per share, which includes specific items, was
29.9p, up 13%.

### Dividends

The Board is proposing a final dividend to shareholders
of 9.6p, up 13%. This brings the full year dividend to
14.0p, also up 13%, and compares with an increase in the
2014/15 full year dividend of 14%.

This year’s dividend is in the middle of our outlook range. It will be
paid, subject to shareholder approval, on 5 September 2016 to
shareholders on the register on 12 August 2016.

### Cash flow

We generated normalised free cash flow of £3,098m,
up £268m or 9%. Excluding EE, this was £2,837m, in line
with our outlook of c£2.8bn for the year.

Free cash flow

The increase in normalised free cash flow is mainly due to the
addition of EE which contributed £261m.

This year we paid £482m for our existing FA Premier League,
UEFA Champions League and UEFA Europa League broadcast
rights.

The net cash cost of specific items was £232m (2014/15:
£154m). This included: EE acquisition-related costs of £114m
(2014/15: £nil); restructuring costs of £85m (2014/15:
£267m); and ladder pricing receipts of £41m (2014/15: £88m).
### Summarised cash flow statement

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>Before specific items</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td>6,580</td>
<td>6,271</td>
<td>6,116</td>
</tr>
<tr>
<td>Capital expenditure(^a)</td>
<td></td>
<td>(2,459)</td>
<td>(2,411)</td>
<td>(2,346)</td>
</tr>
<tr>
<td>Net interest</td>
<td></td>
<td>(541)</td>
<td>(573)</td>
<td>(608)</td>
</tr>
<tr>
<td>Taxation(^b)</td>
<td></td>
<td>(459)</td>
<td>(415)</td>
<td>(424)</td>
</tr>
<tr>
<td>Working capital movements</td>
<td></td>
<td>(105)</td>
<td>(220)</td>
<td>(380)</td>
</tr>
<tr>
<td>Other non-cash and non-current liabilities movements</td>
<td></td>
<td>82</td>
<td>178</td>
<td>92</td>
</tr>
<tr>
<td>Normalised free cash flow</td>
<td></td>
<td>3,098</td>
<td>2,830</td>
<td>2,450</td>
</tr>
<tr>
<td>Cash tax benefit of pension deficit payments</td>
<td></td>
<td>203</td>
<td>106</td>
<td>77</td>
</tr>
<tr>
<td>Specific items</td>
<td></td>
<td>(232)</td>
<td>(154)</td>
<td>(356)</td>
</tr>
<tr>
<td>Reported free cash flow</td>
<td></td>
<td>3,069</td>
<td>2,782</td>
<td>2,171</td>
</tr>
<tr>
<td>Pension deficit payments</td>
<td></td>
<td>(880)</td>
<td>(876)</td>
<td>(325)</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td>(1,075)</td>
<td>(924)</td>
<td>(778)</td>
</tr>
<tr>
<td>Disposals and acquisitions</td>
<td></td>
<td>(3,379)</td>
<td>10</td>
<td>(22)</td>
</tr>
<tr>
<td>Share buyback programme</td>
<td></td>
<td>(315)</td>
<td>(320)</td>
<td>(302)</td>
</tr>
<tr>
<td>Proceeds from issue of own shares</td>
<td></td>
<td>90</td>
<td>1,201</td>
<td>75</td>
</tr>
<tr>
<td>(Increase) reduction in net debt from cash flows</td>
<td></td>
<td>(2,490)</td>
<td>1,873</td>
<td>819</td>
</tr>
<tr>
<td>Net debt at 1 April</td>
<td></td>
<td>(5,119)</td>
<td>(7,028)</td>
<td>(7,797)</td>
</tr>
<tr>
<td>(Increase) reduction in net debt from cash flows</td>
<td></td>
<td>(2,490)</td>
<td>1,873</td>
<td>819</td>
</tr>
<tr>
<td>Non-cash movements</td>
<td></td>
<td>(2,236)</td>
<td>36</td>
<td>(50)</td>
</tr>
<tr>
<td>Net debt at 31 March</td>
<td></td>
<td>(9,845)</td>
<td>(5,119)</td>
<td>(7,028)</td>
</tr>
</tbody>
</table>

\(^a\) Net of government grants.
\(^b\) Excluding cash tax benefit of pension deficit payments.

Reported free cash flow, which includes specific item outflows of £232m (2014/15: £154m) and a £203m (2014/15: £106m) tax benefit from pension deficit payments, was £3,069m (2014/15: £2,782m).

We made pension deficit payments of £880m (2014/15: £876m) and paid dividends to our shareholders of £1,075m (2014/15: £924m).

Our acquisition of EE resulted in a net cash outflow of £3,371m which comprised the purchase consideration of £3,464m offset by cash acquired of £93m.

We spent £315m (2014/15: £320m) on our share buyback programme to help counteract the dilutive effect of our all-employee share option plans maturing. Exercises of share options generated proceeds of £90m (2014/15: £201m). Last year we also raised £1.0bn from an equity placing to support our acquisition of EE. We expect to buy back around £200m of shares in 2016/17 which is below the buyback we completed in 2015/16, reflecting the lower number of shares that are expected to be required for our share option plans.

Non-cash movements within net debt primarily reflect £2,107m of net debt acquired with EE.

You can see a reconciliation to normalised free cash flow from the net cash inflow from operating activities, the most directly comparable IFRS measure, on page 242.
Net debt

Net debt increased by £4,726m. This included the £3,464m cash consideration as part of the EE acquisition and EE net debt of £2,107m. This was partly offset by strong cash generation from business operations.

Overall our net debt has increased to £9,845m.

We funded the cash element of the consideration for EE by drawing down £3.2bn of our £3.6bn acquisition facility on 29 January 2016 as well as using £0.3bn of existing cash. We repaid the majority of the drawdown through the issue of £3,019m of Euro bonds on 10 March 2016. The effective Sterling interest rates on the five, seven and ten-year Euro bonds were 2.74%, 2.74% and 3.25% respectively. As at 31 March 2016, £181m of the acquisition facility remains available and is fully drawn. We also took on EE net debt of £2,107m.

Excluding the acquisition-related borrowing and EE’s net debt we decreased our net debt by £752m this year. We’ve achieved this whilst investing for the future, including in our networks, research and development, sports and TV content, supporting our pension fund and funding our share buyback programme. We’ve also paid progressive dividends to our shareholders.

We regularly review the liquidity of the group and our funding strategy takes account of what we’ll need in the medium term, like funding the pension deficit and share buyback.

Gross debt, translated at swap rates, at 31 March 2016 was £13,260m. That’s made up of term debt of £11,458m, finance leases of £240m, bank loans of £350m, syndicated loan facilities of £619m and other loans of £593m.

In June and July 2015 our $750m and €1,000m bonds matured, resulting in a cash outflow of £1,271m.

In the table below, foreign exchange on net debt includes translation on finance leases, short-term borrowings, investments and cash balances. It also includes the benefit of translating our debt balances to Sterling at swap rates.

### Movements in net debt

<table>
<thead>
<tr>
<th>£m</th>
<th>At 1 April 2015</th>
<th>Nominal free cashflow</th>
<th>Cash tax benefit of pension deficit payments</th>
<th>Proceeds from issue of own shares</th>
<th>Proceeds from disposal and acquisitions</th>
<th>Specific items</th>
<th>Pension deficit payments</th>
<th>Dividends</th>
<th>Share buyback programme</th>
<th>Net debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross debt</td>
<td>9,074</td>
<td>1,748</td>
<td>166</td>
<td>–</td>
<td>84</td>
<td>–</td>
<td>2,188</td>
<td>13,260</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash equivalents</td>
<td>(434)</td>
<td>–</td>
<td>(89)</td>
<td>–</td>
<td>25</td>
<td>–</td>
<td>(2)</td>
<td></td>
<td></td>
<td>(497)</td>
</tr>
<tr>
<td>Current assets investments</td>
<td>(3,523)</td>
<td>–</td>
<td>665</td>
<td>–</td>
<td>(38)</td>
<td>–</td>
<td>(22)</td>
<td></td>
<td></td>
<td>(2,918)</td>
</tr>
<tr>
<td>Removal of accrued interest</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td></td>
<td></td>
<td>–</td>
</tr>
<tr>
<td><strong>Net debt</strong></td>
<td><strong>5,119</strong></td>
<td><strong>1,748</strong></td>
<td><strong>742</strong></td>
<td>–</td>
<td><strong>71</strong></td>
<td>–</td>
<td><strong>2,165</strong></td>
<td><strong>9,845</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The table below shows the key components of our net debt and of the increase this year of £4,726m.

- Including accrued interest and bank overdrafts.
- Retranslation of debt balances to swap rates where hedged by cross-currency swaps.
- Removal of accrued interest applied to reflect the effective interest rate method and removal of fair value adjustments.
- Includes £49m fair value adjustment relating to EE acquired debt less £30m amortisation of de-designated fair value hedge.
- Includes £2,223m of gross debt and £23m of investments acquired from EE.
Financing and debt maturity

The main source of our cash inflow in recent years has been the cash generated from our operations.

Together with our committed bank facility of £1.5bn, we expect that this will be our key source of liquidity for the foreseeable future. The facility has been extended by one year and will now mature in September 2020 with the option to extend the term in August 2016. If agreed this will mature in September 2021.

In February 2015 we agreed a £3.6bn facility to part-finance the acquisition of EE. We drew £3.2bn from this facility when the deal was completed on 29 January 2016. We repaid the majority of the drawdown in March 2016 with proceeds from term debt of £3,019m that we raised on the long-term Euro market.

The £1.5bn committed bank facility remains undrawn at 31 March 2016.

Debt due within one year, at hedged rates, or on demand is £3,005m.

Net finance expense

Adjusted net finance expense of £483m decreased by £77m due to our average net debt and weighted average interest rate on net debt being lower than last year.

We’ve shown below an overview of our average gross debt, investments and cash balances, and net debt and the related weighted average interest rates over the past three years.

The weighted average interest rate on net debt was reduced from 8.1% to 7.5% as the new debt issuances and debt acquired from EE are at lower interest rates than the average rate of the existing debt.

You can see a reconciliation of net finance expense to net interest cash outflow in note 26 to the consolidated financial statements.

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average gross debt</td>
<td>9,036</td>
<td>9,012</td>
<td>9,336</td>
</tr>
<tr>
<td>Weighted average interest rate on gross debt</td>
<td>5.4%</td>
<td>6.0%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Average investments and cash balances</td>
<td>2,616</td>
<td>2,446</td>
<td>1,467</td>
</tr>
<tr>
<td>Weighted average interest rate on investments</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Average net debt</td>
<td>6,422</td>
<td>6,566</td>
<td>7,869</td>
</tr>
<tr>
<td>Weighted average interest rate on net debt*</td>
<td>7.5%</td>
<td>8.1%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

* Excludes interest relating to unwinding of discount on provisions and derivatives not in a designated hedge relationship.
Taxation

Our effective corporation tax rate before specific items was 17.5% compared with 19.9% in 2014/15. This is lower in both years than the UK corporation tax rate of 20% (2014/15: 21%).

Our tax contribution
We are proud to be a major contributor of taxes to the UK economy.

This year we paid UK corporation tax of £200m (2014/15: £225m).

In both years we have benefited from tax deductions associated with our employee share schemes and pension schemes. We expect to continue to benefit from tax deductions from our pension schemes and also from EE’s historic tax losses.

Additionally, we paid non-UK corporate income taxes of £56m (2014/15: £84m), which primarily reflects the fact that most of our business is UK-based.

This year the total taxes we both paid and collected for the UK Government totalled £2.9bn (2014/15: £3.0bn). The Hundred Group Total Tax Contribution Survey for 2015 ranked us as the 7th highest UK contributor. We also contributed £0.4bn (2014/15: £0.4bn) in our largest non-UK jurisdictions.

Our approach to tax
Our aim is to comply with the tax laws and regulations in each of the countries in which we do business.

We seek to have open and co-operative working relationships with tax authorities worldwide.

We manage our tax affairs conservatively and in a manner consistent with the group’s wider purpose and strategy. We take the benefit of widely claimed tax incentives and apply OECD principles.

Tax governance
We have a global framework for managing taxes, which is set centrally at a group level and agreed by the Board.

The application of tax rules is not always clear, and discussions with tax authorities can and do take many years to resolve. We actively monitor our potential tax exposures.

Our group tax team supports regional management to meet local tax regulations.

Tax expense
Our total tax expense before specific items was £607m (2014/15: £631m). This is not the same as the total corporation tax we paid in the year and it excludes tax deductions associated with our pension schemes.

Our effective tax rate on profit before tax and specific items is impacted by our accounting for deferred tax on non-UK losses and changes to our estimates of prior year uncertain tax positions. Excluding these, we would expect our effective tax rate to be around the UK corporation tax rate, as the majority of our business occurs in the UK. This is shown in the table below.

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2016 %</th>
<th>2015 %</th>
<th>2014 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax at UK statutory rate</td>
<td>20.0</td>
<td>21.0</td>
<td>23.0</td>
</tr>
<tr>
<td>Non-UK results taxed at different rates</td>
<td>0.1</td>
<td>0.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Net permanent differences</td>
<td>0.3</td>
<td>–</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td><strong>20.4</strong></td>
<td><strong>21.8</strong></td>
<td><strong>23.5</strong></td>
</tr>
<tr>
<td>Changes to prior year estimates</td>
<td>(2.5)</td>
<td>(1.1)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Deferred tax accounting for non-UK losses</td>
<td>(0.4)</td>
<td>(0.8)</td>
<td>(1.2)</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td><strong>17.5</strong></td>
<td><strong>19.9</strong></td>
<td><strong>21.7</strong></td>
</tr>
</tbody>
</table>
The reduction in the UK corporation tax rate since 2011/12 has had a major impact on our effective tax rate. The UK corporation tax rate will fall to 19% from 1 April 2017 and is expected to fall to 17% from 1 April 2020. We expect that this will continue to have a major impact on our effective tax rate and our tax cash payments.

Recognition of deferred tax assets on historic trading losses may also reduce our effective tax rate in the future. In addition, future changes to our estimates of uncertain tax positions may increase or reduce our effective tax rate.

We receive a tax benefit from R&D incentives in the UK and do not expect this to be reduced as a result of the OECD Base Erosion and Profit Shifting project.

**Key tax risks**

Our key risks relate to the uncertainty of the tax treatment of providing telecommunications services globally. We follow OECD guidelines and have a tax control framework in place to monitor and manage tax.

Additionally, we have extensive and long-standing UK operations that necessarily require the use of estimates. We routinely work with HMRC to validate these estimates.

**Tax losses**

We have an asset of £325m (2014/15: £44m) relating to tax losses on our balance sheet. This relates mainly to historic UK losses acquired with EE. We expect to be able to use this against future profits of EE.

We have £3.9bn of tax losses arising from trading (2014/15: £3.6bn) that we’ve not given any value to on our balance sheet. These arose mostly in our non-UK companies in earlier financial years. We might be able to use the non-UK losses to offset tax liabilities in the future, but this will depend on us making profits in countries where we’ve previously made losses and agreeing the value of the tax losses with the local tax authorities. This is why we judge that these amounts should not be recognised as assets on our balance sheet.

We also have £17.0bn (2014/15: £17.1bn) of capital losses in the UK. We have no expectation of being able to use these losses in the long term.

We’ve given more details in note 9 to the consolidated financial statements.
In recent years we’ve prioritised our capital expenditure to underpin our growth strategy, and in particular to expand and enhance our next generation access network, which includes both fibre and Ethernet. Ongoing investments this year to support our strategy include:

- increasing the footprint of our fibre broadband network, including extending the reach of fibre to rural areas under the BDUK programme. We’ve now passed more than 25m homes and businesses representing around 80% of UK premises;
- continuing to build our TV capabilities, including BT Sport Ultra HD and TV Everywhere, as well as enhancing our content distribution network;
- developing our capabilities and propositions for Mobility and Future Voice to exploit the convergence of fixed and mobile services;
- expansion of our next generation networks, including more capacity on our IP Exchange platform;
- continued development of customer contract-specific infrastructure for our global clients; and
- improving customer experience by developing new systems and replacing elements of our network to reduce faults and speed up repair times.

We recognised net grant funding of £109m (2014/15: £392m), mainly relating to our capital activity on the BDUK programme. The total amount of grant funding recognised is lower than last year as we have deferred £229m of grant income (2014/15: £29m) due to strong levels of take-up. This continued increase in take-up across our fibre network is a result of customers wanting to consume more data at faster speeds. And so we increased our base-case assumption for take-up in BDUK areas from 20% to 33% and under the terms of the BDUK contract, we have a potential obligation to either re-invest or repay grant funding. We’re actively working with the local bodies to extend coverage further with this deferred grant funding.

The BDUK programme provides CPs with the platform and network reach to provide additional services for new and existing customers. Going forward, we will continue to invest in our fibre network, expanding the reach. And we have started deployment trials of our new G.fast technology to deliver even faster speeds in the future.

Of our total capital expenditure, £248m (2014/15: £231m) arose outside the UK. Capital expenditure contracted but not yet incurred was £922m at 31 March 2016 (2014/15: £507m).

**Depreciation and amortisation**

Depreciation and amortisation has increased by 4% to £2,630m (2014/15: £2,538m) due to the inclusion of EE depreciation and amortisation since acquisition. Excluding EE, depreciation and amortisation has reduced by 3% due to lower capital expenditure in previous years as we have become more efficient in delivering our capital investment programmes.

**Balance sheet**

Our balance sheet this year includes the impact of acquiring EE. It also reflects our continued investment in the network infrastructure assets that are the foundation of our business, as well as the working capital with which we manage our business day by day.

On 29 January 2016 we purchased EE for a total consideration of £10,971m which included cash consideration of £3,464m and shares with a fair value of £7,507m. You can find more about how we have provisionally allocated the total consideration across the acquired assets and liabilities and the resulting goodwill in note 14 to the consolidated financial statements.

### Purchase consideration

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid</td>
<td>3,464</td>
</tr>
<tr>
<td>Ordinary shares issued</td>
<td>7,507</td>
</tr>
<tr>
<td><strong>Total purchase consideration</strong></td>
<td><strong>10,971</strong></td>
</tr>
</tbody>
</table>

### Net identifiable assets acquired

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Add: goodwill</td>
<td>6,430</td>
</tr>
<tr>
<td><strong>Net assets acquired</strong></td>
<td><strong>10,791</strong></td>
</tr>
</tbody>
</table>

* Provisional fair values at 31 March 2016.

The impact of EE is reflected in the group’s consolidated balance sheet at 31 March 2016, as we’ve explained below.

#### At 31 March

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
<th>Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant &amp; equipment, software &amp; telecommunications licences</td>
<td>20,570</td>
<td>15,216</td>
<td>5,354</td>
</tr>
<tr>
<td>Goodwill &amp; other intangible assets</td>
<td>10,876</td>
<td>1,459</td>
<td>9,417</td>
</tr>
<tr>
<td>Other non-current &amp; current assets</td>
<td>2,288</td>
<td>1,754</td>
<td>534</td>
</tr>
<tr>
<td>Trade &amp; other receivables</td>
<td>4,296</td>
<td>3,324</td>
<td>972</td>
</tr>
<tr>
<td>Investments, cash &amp; cash equivalents</td>
<td>3,415</td>
<td>3,957</td>
<td>(542)</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>41,445</strong></td>
<td><strong>25,710</strong></td>
<td><strong>15,735</strong></td>
</tr>
<tr>
<td>Loans &amp; other borrowings</td>
<td>(14,269)</td>
<td>(9,768)</td>
<td>(4,501)</td>
</tr>
<tr>
<td>Trade &amp; other payables</td>
<td>(7,289)</td>
<td>(5,276)</td>
<td>(2,013)</td>
</tr>
<tr>
<td>Other current &amp; non-current liabilities</td>
<td>(2,043)</td>
<td>(2,244)</td>
<td>201</td>
</tr>
<tr>
<td>Provisions</td>
<td>(723)</td>
<td>(564)</td>
<td>(159)</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>(1,262)</td>
<td>(948)</td>
<td>(314)</td>
</tr>
<tr>
<td>Pensions, net of deferred tax</td>
<td>(5,235)</td>
<td>(6,102)</td>
<td>867</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>(30,821)</strong></td>
<td><strong>(24,902)</strong></td>
<td><strong>(5,919)</strong></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>10,624</strong></td>
<td><strong>808</strong></td>
<td><strong>9,816</strong></td>
</tr>
</tbody>
</table>

* Excluding deferred tax asset relating to BT’s defined benefit pension schemes.

Our core fixed and mobile network infrastructure is included within property, plant and equipment, software and telecommunications licences. This is the backbone of the UK telecommunications industry. These assets were held at a net book value of £20.6bn at 31 March 2016.
The net increase of £5,354m in the year is mainly due to EE's assets which we have brought onto our balance sheet at a fair value of £5,209m. This included £2,524m of spectrum licences, £2,270m of network assets and £415m of software. Capital expenditure during the year was £2,650m which was offset by depreciation and amortisation of £2,630m.

Goodwill and other acquisition-related intangible assets increased by £9,417m. The majority of this relates to our acquisition of EE. We recognised intangible assets at fair values of £402m for the EE brand and £2,610m for customer relationships.

The provisional residual goodwill was £6,430m. This is attributable to the revenue synergies expected to be generated from new cross-selling and bundling opportunities across the enlarged customer base as well as EE's ability to generate a new subscriber base in the future to replace subscriber churn. It also includes expected benefits from the existing workforce skills and expertise, and savings on operating costs and capital expenditure as a result of joint efficiencies expected from being part of the enlarged group.

We review the recoverable amounts of goodwill annually, and for EE in particular, we have reviewed the recoverability during the year of acquisition. We’ve also considered this across our legacy cash generating units which hold goodwill, which are BT Global Services, BT Business and BT Consumer and are satisfied that these support the carrying value of goodwill (see note 14 to the consolidated financial statements).

Other non-current and current assets and liabilities relate primarily to our financial instruments, which we’ve described in note 27 to the consolidated financial statements. It also includes inventories which have increased by £95m reflecting the addition of handsets inventory in EE.

Trade and other receivables increased by £972m to £4,296m while trade and other payables of £7,289m were £2,013m higher, and both include the impact of EE. Adjusting for the impact of the EE opening balance sheet and the increase in programme rights, working capital was an outflow of £105m in the year.

Investments, cash and cash equivalents, loans and other borrowings are reconciled to net debt of £9,845m in note 25 to the consolidated financial statements. We’ve discussed net debt on page 102. Net debt reflects the cash element of the consideration paid of £3,464m, as well as the debt acquired with EE of £2,107m.

Provisions increased by £115m to £723m. We have a significant property portfolio which includes both office buildings and former telephone exchanges (see page 36). Property provisions, which mainly comprise onerous lease provisions, amounted to £296m. The acquisition of EE increased these assets and obligations by £98m and £72m respectively. EE’s property portfolio includes office buildings as well as retail stores, some of which are undergoing a rationalisation programme. We have also taken on EE’s asset retirement obligation relating to leased mobile sites forming part of the network, which amounts to £78m. You can find more information about these provisions in note 19 to the consolidated financial statements.

We’ve shown deferred tax movements in note 9 to the consolidated financial statements. Pensions, net of deferred tax, fell by £0.9bn to £5.2bn and are discussed below. And the share issue used as part of the consideration for the acquisition of EE is reflected in the improvement in equity of the group at 31 March 2016 compared with the prior year.

**Pensions**

**Overview**

We provide a number of retirement plans for our employees:

- The BT Pension Scheme (BTPS), a defined benefit plan in the UK, is the largest of these plans. Although closed to new members, the BTPS still has around 35,000 active members, 197,500 pensioners and 69,000 deferred members.

- The BT Retirement Saving Scheme (BTRSS) is the current arrangement for UK employees who joined BT after 1 April 2001. It has around 29,500 active members.

- EE operates the EE Pension Scheme (EEPS), which has a defined benefit section that is closed to future accrual and a defined contribution section which has around 12,500 active members.

- We also maintain retirement arrangements around the world with a focus on these being appropriate for the local market and culture.

The BTPS, BTRSS and EEPS are not controlled by the Board. The BTRSS is a contract-based, defined contribution arrangement provided by Standard Life under which members choose their own investments and receive benefits at retirement that are linked to the performance of those investments.

The BTPS and EEPS are managed by separate and independent Trustee bodies. Details of the governance of the BTPS, its financial position, the performance of its investments and a summary of member benefits are available in the BTPS Annual Report published by the Trustee in December 2015, on the BTPS Trustee website (www.btpensions.net).

We’ve given more information on our pension arrangements and on the funding and accounting valuations in note 20 to the consolidated financial statements.

**BTPS funding valuation and future funding obligations**

The funding of the BTPS is subject to legal agreement between BT and the Trustee of the BTPS and is determined at the conclusion of each triennial valuation. The most recent triennial funding valuation at 30 June 2014 and the associated deficit contribution plan was agreed with the Trustee in January 2015.

At 30 June 2014, the market value of assets was £40.2bn and the funding deficit was £7.0bn. There are a wide range of assumptions that could be adopted for measuring pension liabilities. Legislation requires that this deficit is based on a prudent view – for example, assuming a lower future investment return than might be expected in practice.
A 16-year deficit contribution plan was agreed reflecting BT’s long-term and sustainable cash flow generation. Under this plan, we made deficit payments of £875m in March 2015, £625m in April 2015 and £250m in March 2016. A further payment of £250m will be made in 2016/17, bringing the total for the three years to 31 March 2017 to £2.0bn.

Accounting position under IAS 19
The accounting deficit, net of tax, fell over the year from £6.1bn to £5.2bn. The movements in the deficit for the group’s defined benefit plans are shown below.

### Movements in IAS 19 deficit

<table>
<thead>
<tr>
<th>Deficit (£bn)</th>
<th>Acquisitions</th>
<th>Income statement</th>
<th>Cash contributions</th>
<th>Actuarial movements</th>
</tr>
</thead>
<tbody>
<tr>
<td>(4.0)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4.5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5.0)</td>
<td>(1.3)</td>
<td></td>
<td>(0.2)</td>
<td>(0.1)</td>
</tr>
<tr>
<td>(5.5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6.0)</td>
<td></td>
<td>(0.3)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6.5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7.0)</td>
<td>(0.1)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7.5)</td>
<td></td>
<td>(0.2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8.0)</td>
<td></td>
<td></td>
<td>(0.9)</td>
<td></td>
</tr>
<tr>
<td>(8.5)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Deficit at 1 April 2015**
- Acquisitions (EE Pension Scheme): £13,850
- Service cost: £2,026
- Net finance cost: £7,903
- Regular contributions: £7,588
- Deficit contributions on liabilities: £922
- Actuarial gains on assets: £481
- Deficit at 31 March 2016: £33,270

**At 31 March 2016 our cash, cash equivalents and current asset investments were £3,415m. We have an unused committed borrowing facility of £1.5bn. We expect that these resources and our future cash generation will allow us to settle our obligations as they fall due.**

Actuarial losses on plan assets for 2015/16 reflect actual investment returns in the BTPS over the year of around 2% which were below the IAS 19 discount rate of 3.25%. The return reflects strong performance for property, currency gains and broadly flat returns on other asset classes.

Actuarial gains on the liabilities primarily reflect lower than expected inflationary increases in pension payments that will be made in 2016, and other scheme and membership experience following the use of updated membership data.

### Contractual obligations and commitments
We’ve shown in the table below our principal contractual financial obligations and commitments at 31 March 2016. You can see further details on these items in notes 20, 25 and 30 to the consolidated financial statements; note 30 includes details relating to our financial commitments and contingent liabilities.

<table>
<thead>
<tr>
<th>Payments due by period</th>
<th>Total £m</th>
<th>Less than 1 year £m</th>
<th>Between 1 and 3 years £m</th>
<th>Between 3 and 5 years £m</th>
<th>More than 5 years £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and other borrowings&lt;sup&gt;a&lt;/sup&gt;</td>
<td>13,850</td>
<td>3,229</td>
<td>3,092</td>
<td>2,279</td>
<td>5,250</td>
</tr>
<tr>
<td>Finance lease obligations</td>
<td>240</td>
<td>8</td>
<td>28</td>
<td>25</td>
<td>179</td>
</tr>
<tr>
<td>Operating lease obligations</td>
<td>7,588</td>
<td>669</td>
<td>1,233</td>
<td>1,045</td>
<td>4,641</td>
</tr>
<tr>
<td>Capital commitments</td>
<td>922</td>
<td>837</td>
<td>80</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Other commitments</td>
<td>481</td>
<td>191</td>
<td>260</td>
<td>30</td>
<td>–</td>
</tr>
<tr>
<td>Device purchase commitments</td>
<td>260</td>
<td>260</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Programme rights commitments</td>
<td>2,026</td>
<td>744</td>
<td>1,145</td>
<td>137</td>
<td>–</td>
</tr>
<tr>
<td>Pension deficit obligations</td>
<td>7,903</td>
<td>271</td>
<td>1,420</td>
<td>1,436</td>
<td>4,776</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33,270</strong></td>
<td><strong>6,209</strong></td>
<td><strong>7,258</strong></td>
<td><strong>4,954</strong></td>
<td><strong>14,849</strong></td>
</tr>
</tbody>
</table>

<sup>a</sup> Excludes fair value adjustments.
<sup>b</sup> Includes £1.78bn of accrued interest due within less than one year.