“This has been a challenging year for BT. We’ve faced headwinds in the UK public sector and international corporate markets and must learn from what we found in our Italian business. Openreach also received a fine from Ofcom after an investigation into historical Deemed Consent practices revealed it fell short of the high standards we expect. We take these issues extremely seriously and are putting in place new measures, controls and people to prevent them happening again. Learning from the challenges of this year will make BT a stronger company for the future.

However, we’ve also made good progress in a number of areas. Our integration of EE is going well, our UK consumer, SME and corporate businesses are performing strongly, and we’ve made significant progress in improving customer experience across the group. Our agreement with Ofcom on Openreach governance brings to an end a period of uncertainty. And securing exclusive rights to top-flight European football until 2021 puts our consumer businesses in a strong position.

BT is well positioned for the future, and we’ll continue to seek business cases to invest more in the UK’s digital infrastructure.”
Review of the year

We announced that Jan du Plessis will join our Board on 1 June 2017 and become chairman of BT Group with effect from 1 November 2017.

PG106 to read more about our Board

Strategic progress

- Focused on improving customer experience across the group.
- EE integration is going well, we’re ahead of target on first-year cost synergies.
- Restructuring announced, accelerating our cost transformation.
- Continued investment for growth and aspiration to become the UK’s digital champion.

PG16 to read more about our strategy

Openreach

- Enduring and comprehensive agreement reached with Ofcom on future Openreach governance.
- Openreach board created with Mike McTighe appointed as Openreach chairman.
- Ofcom’s investigation into the historical use of Deemed Consent by Openreach resulted in a £42m fine and c£300m of compensation payments that will be paid in 2017/18.

PG83 to read more about Openreach
Review of the year continued

Our investigation into our Italian business

£268m
prior years’ adjustments

£260m
specific item charge

Adjustments relating to the investigation of our Italian business amount to £268m for errors in prior years, for which we’ve revised prior periods, and a specific item charge of £245m for changes in accounting estimates and investigation costs of £15m.

To respond, our actions have included:
– detailed balance sheet reviews in seven selected country operations in Global Services. Issue isolated to Italy;
– appointed a new CEO and CFO of our Italian business, as well as a new president of European operations; and
– reviewed and improved financial processes, systems and controls across the group.

Market environment

Headwinds in the UK public sector and international corporate markets.

Low interest rate environment increasing our IAS 19 pension deficit by £2.4bn net of tax.

EE integration

Cross-selling opportunities being realised
– Business mobile net adds up strongly over the year.
– Hundreds of thousands of EE customers taking BT Sport.
– Trial of selling BT products in EE stores has gone well.

c£150m per annum run-rate cost synergies achieved in first year
– Ahead of £100m target due to synergies being realised early.
– Early focus on renegotiating supplier terms, insourcing and estate rationalisation.

Taking the best of both cultures

PG93 to read more about the EE integration
BT Sport won exclusive rights to UEFA Champions League and UEFA Europa League until the end of 2020/21 season.

Global Services strategic review

We have undertaken a strategic review of Global Services, with the objectives of improving its market and financial performance, its risk profile, and the long-term value that it delivers to BT. Global Services is most differentiated with large, multinational customers, who demand high-quality, secure communications. Its product portfolio is industry-leading across a range of areas, including networking, security, cloud collaboration and contact centres.

Technology trends mean that we are now less dependent on owning physical local network access assets around the world, creating the opportunity to reposition Global Services as a more focused digital business. We will prioritise innovation of cloud-based platforms that deliver our products and services, with BT’s global network at the core, to support the digital transformation of our customers. As we implement this strategy, we will ensure that we optimise the value of our global and our local network assets.

To enable this strategic repositioning, we are restructuring our Global Services organisation to a simpler operating model. This will involve a two-year restructuring of our operations, the costs of which will be treated as a specific item.
Our investigation into our Italian business

What we found
In the summer of 2016 we received a whistle-blower report of inappropriate behaviours in our Italian business. We instigated an investigation, which included an independent review by KPMG LLP, with support and oversight from our Legal, Governance & Compliance function and Freshfields Bruckhaus Deringer, reporting directly to both the chair of the Audit & Risk Committee and BT Group chairman, and our own comprehensive balance sheet review, which revealed improper accounting practices and a complex set of improper sales, purchase, factoring and leasing transactions in our Italian business. The investigation identified collusion, circumvention and override of controls within our Italian business that was not identified by our monitoring controls thereby resulting in the misstatement of results going undetected for a number of years.

These activities resulted in the overstatement of profits amounting to £268m in our Italian business over a number of years. We concluded that the errors were not individually material to any of the group’s previously issued financial statements; however, we did conclude that the correction of the full £268m in the current year would materially misstate the current year. To avoid this we corrected the errors by revising prior year income statements, balance sheets and cash flow statements. The effect of these revisions is set out in note 1 to the financial statements.

The findings from the investigation in Italy led us to review the carrying value of the assets and liabilities on the balance sheet, taking into account changes in facts or circumstances since 31 March 2016 and whether additional exposures had arisen due to events in the current year. This exercise required a level of judgement, in many cases taking a more cautious view based on our current understanding of circumstances surrounding each item. This exercise concluded that it was appropriate to write-down the value of our balance sheet assets and increase our balance sheet liabilities. The resulting charge of £245m is presented as a specific item in the current year.

Changes in facts or circumstance of items arising in the current year have been recorded in Global Services’ current year trading results.

How we responded
The inappropriate behaviour in our Italian business is an extremely serious matter. It has no place in BT and we took immediate steps to improve the financial processes and controls in that business. We suspended a number of BT Italy’s senior management team, with support and oversight from the Legal, Governance & Compliance function and Freshfields Bruckhaus Deringer, reporting directly to both the chair of the Audit & Risk Committee and BT Group chairman, conducted an investigation of the systems and controls relating to our Italian business. We also conducted a broader review of financial processes, systems and controls across the group. We are acting on both the recommendations of KPMG and our own observations and have taken steps to improve our controls within Italy. We have also taken steps to enhance the wider controls that monitor our overseas operations in our shared service centres, Global Services and at a group level.

Beyond Italy, we have completed detailed balance sheet reviews in seven selected country operations in Global Services outside of the UK. These thorough reviews were supported by EY. Together with the investigation in Italy these covered around two-thirds by asset value of the operations outside the UK, representing 4% of the group’s total assets. Our review did not identify any similar issues or areas of concern elsewhere giving us comfort that the inappropriate behaviours were isolated to Italy. This along with other additional substantive assurance activities that we have undertaken enables us to conclude that the financial results and balance sheet as of 31 March 2017 position give a true and fair view of the group.

As a result of our US listing we are required to make certain assessments of our controls as of 31 March 2017 for the purposes of the US Sarbanes-Oxley Act 2002 (Sarbanes-Oxley). Despite the remediation steps we took, the controls had not operated for sufficient time to allow assurance testing to confirm their effectiveness under Sarbanes-Oxley. We have therefore concluded for these purposes that our controls were ineffective as of 31 March 2017 due to a material weakness with regards to our Italian business.

The BT Group Remuneration Committee has also considered the wider implications of the BT Italy investigation; see page 122 for further details.

What we will do going forward
While we have taken steps to improve our control environment, we recognise we have more to do. We will continue to take steps to improve further our control, governance and compliance environment. These steps include increasing the resources and improving the capabilities of the controlling function and the audit function outside the UK, and further developing our integrated risk and assurance reporting processes. We are also enhancing our controls and compliance programme to strengthen awareness of the standards we expect, the capabilities of our people, and to reinforce the importance of doing business in an ethical, disciplined and standardised way.

We have appointed a new president of our European operations and a new CEO and CFO of BT Italy, from outside the Italian executive management team, and they are working hard to reposition and restructure the business for the future including implementing improvements to the governance, compliance and control culture and the capabilities of our people in the organisation.

The new CEO and CFO of BT Italy will continue to review the Italian management and finance teams and work with BT Group Ethics and Compliance to improve the governance, compliance and financial safeguards. Going forward, we will also continue to rotate senior management among countries to ensure an independently governed and rigorously controlled organisation throughout all parts of Global Services.
Deemed Consent

On 26 March 2017, Ofcom published the findings of its investigation into the historical use of Deemed Consent by Openreach. Deemed Consent is an agreed process between Openreach and its Communications Provider (CP) customers, which allows Openreach to halt the installation and reschedule the delivery date for providing dedicated business services (known as Ethernet) in a number of specific circumstances which are beyond its control. Ofcom found that Openreach had breached its contractual and regulatory obligations by inadequately and retrospectively applying Deemed Consent to reduce compensation payments to CPs between January 2013 and December 2014.

As a result of the findings, Openreach has agreed to compensate CPs and Ofcom has imposed a fine of £42m, reflecting the seriousness of the failings. This includes a 30% maximum discount for BT admitting its liabilities and agreeing to compensate the affected CPs in full. The precise amount of these compensation payments will result from discussions with the affected parties and is currently estimated at £300m. The fine and associated compensation payments are treated as a specific item charge in this year’s income statement, with the cash expected to be paid in 2017/18.

We take this matter very seriously and we’ve put in place additional controls to safeguard against this happening again and to make sure that we’re providing the highest standards in serving our customers.

Financial results

Proposed final dividend of 10.55p, up 10%,
giving a full year dividend of 15.40p, also up 10%

<table>
<thead>
<tr>
<th>Year to</th>
<th>£m</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 March 2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reported measures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>24,062</td>
<td>27%</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>2,354</td>
<td>(19)%</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>19.2p</td>
<td>(33)%</td>
</tr>
<tr>
<td>Adjusted measures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in underlying revenue excluding transit adjusted for the acquisition of EE</td>
<td>(0.2)%</td>
<td></td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>7,645</td>
<td>18%</td>
</tr>
<tr>
<td>Change in underlying EBITDA adjusted for the acquisition of EE</td>
<td>(2.9)%</td>
<td></td>
</tr>
<tr>
<td>Adjusted profit before tax</td>
<td>3,532</td>
<td>5%</td>
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<tr>
<td>Adjusted basic earnings per share</td>
<td>28.9p</td>
<td>(9)%</td>
</tr>
<tr>
<td>Normalised free cash flow</td>
<td>2,782</td>
<td>£(316)m</td>
</tr>
<tr>
<td>Net debt</td>
<td>8,932</td>
<td>£(906)m</td>
</tr>
</tbody>
</table>

Performance against 2016/17 outlook

In January we revised our outlook as a result of the pressures in the UK public sector and international corporate markets and the outcome of the investigation into our Italian business.

<table>
<thead>
<tr>
<th>2016/17 initial outlook</th>
<th>2016/17 revised outlook</th>
<th>2016/17 performance</th>
<th>2017/18 outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in underlying revenue excluding transit</td>
<td>Growth</td>
<td>Broadly flat</td>
<td>(0.2)%</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>£7.9bn</td>
<td>£7.6bn</td>
<td>£7,645m</td>
</tr>
<tr>
<td>Normalised free cash flow</td>
<td>£3.1bn - £3.2bn</td>
<td>£2.5bn</td>
<td>£2,782m</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>≥10% growth</td>
<td>≥10% growth</td>
<td>15.40p +10%</td>
</tr>
<tr>
<td>Share buyback</td>
<td>£200m</td>
<td>£206m</td>
<td>£206m</td>
</tr>
</tbody>
</table>
How we’re organised

We have six customer-facing lines of business: Consumer, EE, Business and Public Sector, Global Services, Wholesale and Ventures, and Openreach.

They’re supported by our internal service unit, Technology, Service and Operations as well as Group Functions.

Employees by division

- 28% Openreach
- 4% Wholesale and Ventures
- 8% Consumer
- 9% EE
- 10% Business and Public Sector
- 12% TSO
- 13% Group Functions
- 16% Global Services

Consumer

We’re the largest provider of consumer fixed-line voice and broadband services in the UK.

We’re also the second-largest provider of pay-TV sports channels in the UK and a leading innovator in broadcasting technology. During the year we secured an extension to our broadcast rights for the UEFA Champions League and the UEFA Europa League until 2021 which puts our business in a strong position.

Openreach

We build the network that connects Britain’s homes and businesses to the future.

We’re responsible for providing services over the local access network, sometimes referred to as ‘the last mile’, as well as installing and maintaining the fibre and copper communications networks that connect homes and businesses.

26.5m premises passed by our fibre network

Business and Public Sector

We sell communications and IT services in the UK and the Republic of Ireland.

We’ve around 1.2m business and public sector customers and lead the field in fixed-voice, networking and broadband. We have three customer-facing units providing communications solutions and IT services to SMEs, corporates and public sector customers.

c1.2m customers

PG56-90 to read more about our lines of business
EE

We’re the UK’s largest mobile network operator and we also offer fixed broadband and TV.

We employ 9,000 people with 67% directly helping customers through our shops and contact centres. Our 4G mobile network is the biggest and fastest in the UK.

80%

4G geographic coverage

(99% population coverage)

Global Services

We’re a leading global business communications provider, supplying ICT services to 5,500 multinational companies in 180 countries.

Our performance for the year has been impacted by the challenges in the international corporate markets and the outcome of our investigation into our Italian business. We will be implementing a new operating model in response to these challenges, explained on page 70.

180

countries served

Wholesale and Ventures

We help other companies provide fixed or mobile telephony services, as well as running a number of BT’s specialist business units.

We provide wholesale fixed network services to over 1,400 customers. We support 30 mobile virtual network operators. And our ventures provide mass market services such as directory enquiries and payphones, as well as enterprise services.

1,400

wholesale customers

Technology, Service and Operations

We’re the internal technology unit responsible for creating and operating our global networks, platforms and IT systems.

We work closely with each of our lines of business, creating new products for them and making sure that services evolve to reflect the changing needs of their customers. And we make sure that BT’s networks and systems are reliable and resilient. We also manage BT’s research and development and our worldwide patent portfolio.

4,900

worldwide portfolio of patents and applications
An introduction from our Chairman

As I write my tenth and final chairman’s letter, I look back at the progress BT has made over the past decade.

As I write my tenth and final chairman’s letter, I look back at the progress BT has made over the past decade. It has been a privilege to oversee a period in which BT took the decision in 2008, at a time of great macroeconomic uncertainty, to begin a rollout that has now passed over 26.5 million premises with fibre broadband. Other highlights include launching BT Sport in 2013 and acquiring EE in 2016. Over the past decade, we have also returned over £1 per share to shareholders in the form of dividends. I am pleased to say that BT is an immensely stronger company than it was ten years ago.

However, 2017 has presented its challenges. While we have made significant progress in many areas, concluding the Ofcom Openreach review and successfully integrating EE into the BT Group, we have also had to address some significant issues. In particular the fraud in our Italian business, trading in the UK public sector and international corporates, and the fine that we received from Ofcom for historical process failures in Openreach are very disappointing.

This report includes further information on these matters, as well as details of the measures we have put in place to resolve them. The Board takes them very seriously and has extensively investigated the causes to ensure that they cannot happen again.

Changes to the Board
In March, we announced that Jan du Plessis will join the Board on 1 June 2017, before becoming chairman on 1 November 2017, when I retire. I am delighted Jan has been chosen to succeed me as chairman. He brings great experience, having been chairman of British American Tobacco, SABMiller and Rio Tinto. I wish him every success as he leads BT at this important time.

Simon Lowth joined the Board on 12 July 2016 as group finance director. Simon brings a wealth of knowledge having previously been CFO of BG Group, AstraZeneca and ScottishPower.

Investing in the UK’s digital future
As we look ahead to the UK’s exit from the European Union, it is more important than ever that we have strong British companies investing in our country’s future. We invested around £2bn in the UK’s fixed and mobile communications networks this year, taking fibre broadband further and vastly expanding 4G mobile network coverage. Looking ahead, we have bold ambitions to reach 12 million premises with ultrafast broadband by the end of 2020, as well as covering 95% of the UK’s landmass with 4G.

We also take seriously our responsibility to invest in the UK’s workforce. We hired 900 apprentices this year, with plans to increase this to over 2,000 next year. And our investment in people is leading to better outcomes for our customers. We hired 1,500 people into Openreach this year, mostly engineers, helping to halve the number of missed customer appointments in the fourth quarter, year on year. Meanwhile, we have also hired more than 5,000 new people into customer-facing roles at our contact centres in the UK and Ireland, meaning that 100% of EE’s contact centre calls are now handled in the UK and Ireland, with considerable onshoring progress also made at Consumer this year.

We are also investing in innovative technologies, continuing BT’s proud history in this area. We have been the UK’s third largest investor in research and development over the past decade, and this year launched the Tommy Flowers Institute, a new Higher Education ICT training institute at our research laboratories at Adastral Park.

We are also using technology to support communities. This year we helped generate £95m towards good causes. We also continue to train teachers in tech literacy, giving more than a million children the skills they will need for the future, with an aim to reach five million by 2020.
Investigation into BT Italy
Following allegations of inappropriate behaviours in our Italian business, we conducted an investigation, including an independent review by KPMG LLP. I am very disappointed by what we discovered, including extensive improper accounting practices and a complex set of improper sales, purchase, factoring and leasing transactions. These activities led to the overstatement of earnings and assets in our Italian business. We have detailed on page 6 the issues that arose and the steps that we have taken in relation to these matters.

Agreement with Ofcom on Openreach governance
An important step this year was the agreement reached in March with Ofcom on the future governance of Openreach. This agreement comes after two years of discussions, and will see Openreach become a distinct, legally separate company within the BT Group. It will see Openreach assume greater independence under its own board. We appointed Mike McTighe as Openreach chairman in November 2016. Sir Brendan Barber, Edward Astle and Liz Benison then joined the new Openreach board as independent members in early 2017. Clive Selley, the Openreach CEO, will report into Mike McTighe, with accountability to the BT Group, as the CEO of a wholly-owned subsidiary. This includes accountability to the BT Group chief executive with regards to certain legal and fiduciary duties that are consistent with BT’s responsibilities as a listed company.

Rewarding our shareholders
Our goal remains to deliver sustainable, profitable revenue growth. Together with our cost transformation activities, this will support long-term cash flow growth and therefore create value for our shareholders.

The strength of our business means that despite some difficulties this year, we can still fulfil our policy of paying a progressive dividend. The Board is proposing a final dividend of 10.55p, up 10%. This gives a full year dividend of 15.40p, up 10%. However, given the importance of maintaining flexibility for investment, dividend growth in 2017/18 will be lower than the 10% previously anticipated. The rate of future dividend growth will reflect a number of factors, including underlying medium-term earnings growth, the level of investment spending and other cash commitments. The Board believes that this dividend policy appropriately balances the interests of all stakeholders and provides a solid foundation for future growth, underpinned by an ongoing commitment to investment that delivers sustainable long-term value for customers and shareholders.

Whilst we have undoubtedly faced challenges this year, we must not lose sight of the people, infrastructure and services that make BT a great company, with an important role to play in the future of how people in the UK and around the world live their lives.

As I leave BT I would like to thank my colleagues on the Board, Gavin Patterson, our CEO and the management team whose support I have valued highly over the years.

In my first chairman’s message ten years ago, I closed by saying there was every reason for optimism. Looking forward, I have great confidence that remains the case today.

Sir Michael Rake
Chairman
11 May 2017
A message from our Chief Executive

Whilst we’ve continued to bring new services to our customers, invested in our digital infrastructure and made significant improvements to the customer experience, I’d be the first to say that 2016/17 has been a challenging year, and one that has been humbling for us all at BT.

The behaviours and practices we found in our Italian business, as well as Ofcom’s findings around Openreach’s use of the Deemed Consent process a number of years ago, have no place in BT. We take these extremely seriously and have reviewed all aspects of our governance, putting in place new measures and controls to prevent them from happening again. In addition, we’ve also faced difficult market conditions in both the UK public sector and international corporate markets.

Despite these challenges though, I believe we’ve made good progress in many areas across the business.

After a two-year negotiation, we reached a comprehensive and enduring agreement with Ofcom on the long-term governance of Openreach. This brings to a close a period of uncertainty; protects the interests of millions of UK households, businesses and service providers who rely on our infrastructure, and it’s good news for pensioners and colleagues too.

We’ve continued to invest in the UK’s digital future. We’ve now passed over 26.5 million premises with our superfast fibre broadband network. Our ultrafast deployment, which provides speeds of 100Mbps and above, is also making great progress, with 500,000 homes and businesses now passed – using a mix of fibre-to-the-premises and G.fast technologies.

Our mobile investment is also performing strongly. Our 4G coverage now reaches 80% of the UK’s geographical coverage, the largest of any UK operator. And we’re on track to reach 92% by September 2017.

The integration of EE into the BT family continues to go well, and we have delivered cost synergies earlier than originally planned in our first year.

We believe online usage through mobile devices is set to increase in the future. And we also believe that everyone in the UK should be able to access superfast broadband, wherever they are and as fast as it can be. That’s why in May 2016 we committed to invest £6bn in our wireless and fixed networks over the next three years. This investment will enable the UK to make social and economic progress, consolidate our position as the UK’s digital champion and create growth over the long-term for our stakeholders.

This year, through our continued innovation, we’ve also launched a range of new products, services and content.

Our Call Protect service is proving popular, helping two million customers avoid nuisance calls.

We’ve secured exclusive rights to the UEFA Champions League and UEFA Europa League until the end of the 2020/21 season, covering double-header nights during the group stages and free-to-air broadcast. These rights are in addition to FA Cup and Premier League football, live rugby, cricket, UFC and now boxing. And we’ve brought BT Sport content to millions of additional sport fans through digital channels such as BT Sport’s YouTube channel, where we will show this year’s UEFA Champions League...
and UEFA Europa League finals. We’re also pleased to be the first operator to offer Dolby Atmos sound.

We’re working with local authorities to launch our next generation of payphone kiosks, which you’ll start to see shortly.

And we’ve built a unique security platform that integrates best-in-class technology from our partners, with our own award-winning innovation – to protect our multinational customers and the UK’s critical national infrastructure.

Customer experience remains our top priority. We’ve listened to criticism and have a well-developed improvement plan in place. Our efforts are starting to bear fruit and customers are benefiting – with significantly more calls answered onshore, shorter call waiting times, faster repair times, fewer missed appointments, and our best Right First Time performance this decade. All of this is showing in our Group Customer Perception Score, the way we measure customer experience, which has improved for the last ten consecutive months. While we’re making progress, we know our service must continue to get better and our focus will remain on delivering further improvements in the coming year.

We’ve also significantly invested in our people – recruiting thousands into engineering and customer-facing roles, and providing thousands of hours of training and development. We’ve also created more than 1,700 new apprenticeship and graduate jobs and provided 2,000 vocational training and work experience placements, mainly for out-of-work youngsters. For so many people, BT is a source of pride and honour and we want that to always be the case.

We remain committed to our strategy of broadening and deepening customer relationships and to using the power of communications to make a better world.

This year has presented us with challenges and we’ve learnt from them. I know we have the ability to emerge stronger and better, whatever challenge we face.

We take our role as the leading investor in the UK’s digital infrastructure very seriously. I’m determined to make sure that we remain at the heart of what’s to come and that we continue to add value for our customers and employees and for shareholders and society as a whole.

We’re excited about the opportunities we’ll create to use our unique set of assets and capabilities; the innovative new products and services we’ll bring to customers and the new skills and career possibilities we’ll provide for our people.

Gavin Patterson
Chief Executive
11 May 2017
Operating Committee

This is our key management committee. It meets weekly and is chaired by the chief executive. The Operating Committee has collective responsibility for running our business and executing our strategy. It monitors the group’s financial, operational and customer service performance, and has cross-business oversight of all our lines of business. It also reviews the group’s principal risks and considers potential opportunities.

More specifically the Operating Committee:
– 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.

The Operating Committee can approve, up to certain limits set by the Board, capital expenditure, disposals of fixed assets, investments and divestments. Some of these approvals are passed to sub-committees such as the Design Council (page 25) and to senior executives.

Tony Channamugam, formerly group finance director, left during the year.

Sean Williams
Chief Strategy Officer
Appointed June 2016. Sean has led BT’s Group strategy, product portfolio, regulation and policy since 2011, and previously for BT Retail. Before joining BT in 2008, Sean was an executive director on the board of the UFT of Ofcom, a partner of the strategy consultancy LEK Consulting LLP and a non-executive director of Williams Lea Group.

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 Telewest (now Virgin Media). Prior to that, he spent nine years at Procter & Gamble, rising to become European marketing director.

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 PlutoNet 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 Telewest (now Virgin Media) and brand manager at Procter & Gamble.

Marc Allera
CEO, EE
Appointed February 2016. Marc was formerly chief commercial officer for EE from 2011 to 2015. 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. Prior to his 16 years’ experience in the mobile industry, Marc was GM for Sega UK and Europe.

Alison Wilcox
Group HR Director
Appointed September 2013. Alison has more than 20 years’ experience of senior management positions including managing director of NFL in the Republic of Ireland. Alison is currently chairman of the BT Group Foundation.

Howard Watson
CEO, Technology, Service & Operations
Appointed February 2016. 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 Telewest (now Virgin Media) and Carters4, a telecommunications consultancy and software company.

Clive Selley
CEO, Openreach
Invitee, CEO, Openreach
Clive was appointed CEO, Openreach in February 2016. He was previously CEO, BT Technology, Service & Operations, CEO, BT Innovate & Design and before that president, BT Global Services Portfolio & Service Design. He is an “invited” because the CEO of Openreach cannot be a member of the Operating Committee under the provisions of the Undertakings.
Our strategy

Our strategy has evolved since last year. The three main pillars are broadly the same but we’ve placed more emphasis on the overall customer experience (rather than just on customer service). Following the acquisition of EE, our investment areas have evolved to focus on having the best network in the UK and being a fully converged service provider.

In order to achieve our purpose and reach our goal we’ve adopted a strategy based on broadening and deepening our customer relationships.

To create sustainable profitable revenue growth, we need stronger relationships with our customers.

The three pillars of our strategy help us build these relationships, providing great customer experience, transforming our costs and enabling us to invest for growth in the process. They work together: the better our customers’ experience, 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 more we can invest in improving our customers’ experience and in products and services that will create growth.

Our strategy in a nutshell

The diagram below shows the main elements of our strategy and how they work together to support our purpose and goal. More details on our purpose and goal, in the context of our business model, can be found on page 24.
How we’re doing

1

Delivering great customer experience

Everything we do influences our customers’ opinion of BT. Whether it’s fixing a fault, marketing a new product or fulfilling a new contract, it’s the total customer experience that matters. That’s why it’s so important we work together across our entire business to improve our customers’ experience. As a result our strategy now emphasises the importance of improving every aspect of the customer experience.

Customer service is at the heart of this goal. We’ve really improved our service levels this year, but we can do more. Our focus on customer experience means that everyone in BT, from marketing to contact centre, and front-line engineer to senior executive, has a role to play – and this includes the digital experience offered by online, apps and social media.

We believe that improving our customers’ experience will create more growth. That’s why it’s such an important part of how we judge the group’s performance. Our key measures of customer experience include customer perception (based mainly on the industry standard of Net Promoter Score) and getting things done Right First Time.

How we did in the year

We’ve seen a steady improvement in our customers’ perception of us, increasing by five points since last year, with improvements across all lines of business.

Our Right First Time performance has also improved, by 6.4% compared to -3.0% last year. EE and our corporate businesses performed particularly well and we’ve prepared and responded much better to difficult weather conditions in the UK.

What difference did our customers see?

Customers judge us on their day-to-day interaction with BT. They want a consistent, reliable service, a network that offers a great experience and products that improve their lives. It’s in these three areas – service, network and products – where we can most clearly see the progress we’re making, progress we’re committed to continuing over the coming year.

Deliver a consistent and reliable service

– All our Consumer customers have been given an improved level of care and on average, have landline faults fixed 24 hours quicker than last year.
– Consumer has created more than 2,200 new roles to help answer 90% of customer calls in the UK and Ireland by Spring of 2017. They are on track to meet this target, with around 86% of calls now answered in the UK and Ireland.
– EE now handles 100% of its customer service calls in the UK and Ireland.
– Openreach achieved or is on track to achieve all of Ofcom’s copper Minimum Service Levels (MSLs).
– There’s been a material improvement in how we deliver Ethernet with Openreach achieving five of the six Ofcom MSL targets.
– Openreach has recruited over 1,500 people, mostly engineers. It also halved its number of missed customer appointments by the end of the financial year.
– We’ve made it even easier to interact with us online, for example 9m customers have signed up to “My EE” via the app or online.

A great customer experience from our network

– We’ve improved the weather proofing of our networks. This year we’ve halted the growth in network faults following six consecutive years of increasing faults.
– Global Services is enabling better monitoring of network, IT and applications.
– Openreach is offering to connect fibre-to-the-premises for free to all developments of new sites with over 30 plots4.

Products that improve customer experience

– Consumer upgraded all its superfast broadband (Infinity 1) customers from 38Mbps to 52Mbps where available.
– Business and Public Sector upgraded over 80,000 UK Business Fibre broadband customers from up to 38Mbps to speeds of up to 76Mbps.
– We launched BT Call Protect to divert nuisance and unwanted calls to junk voicemail. It’s free to all our customers.

Our top priorities

Looking ahead, we’re focused on:

– improving every interaction between our contact centre advisers and customers, with further investment in skills and tools;
– developing all our digital channels to enable more customers to adopt online as the best method of interacting with us;
– extending the reach of our fibre and mobile networks, and reducing network faults;
– improving our Ethernet delivery processes, enhancing the experience for our business and corporate customers; and
– enabling all our people to put customers’ needs at the heart of their decision making.

4 New sites with over 30 plots registered from 10 November 2016.
How we're doing continued

Investing for growth

We're putting money and resources in five strategic areas that we believe will deliver sustainable, profitable revenue growth. They underpin our strategy and our operational and financial performance, which in turn contribute to our KPIs (on page 20).

<table>
<thead>
<tr>
<th>Differentiated content, services and applications</th>
<th>Best network in the UK</th>
<th>Fully converged service provider</th>
<th>Market leadership in all UK segments</th>
<th>Focus on multinational companies globally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch of BT Smart Hub</td>
<td>26.5m premises passed with fibre</td>
<td>£150m cost synergies in the first year of EE integration</td>
<td>37% retail broadband share</td>
<td>180 countries</td>
</tr>
<tr>
<td>Launch of BT Family SIM</td>
<td>G.fast pilots in 17 locations</td>
<td>BT Sport made available to EE customers</td>
<td>29% mobile market share</td>
<td>Cloud of Clouds</td>
</tr>
<tr>
<td>BT Sport daily viewing up 12%</td>
<td>80% of UK landmass now covered by 4G</td>
<td>£1.6bn target Net Present Value of revenue synergies from EE acquisition</td>
<td>W&amp;V named Best Wholesale Operator(^a)</td>
<td>NFV Network Function Virtualisation</td>
</tr>
<tr>
<td>My BT, My EE app improvements</td>
<td>5G research with a range of partners</td>
<td>Trial of selling BT products in EE shops</td>
<td>3.8m mobile customers of Mobile Virtual Network Operators we support</td>
<td>SDN Software Defined Networking</td>
</tr>
</tbody>
</table>

\(^a\) MVNO World Congress 2016.
3

Transforming our costs

Our approach to cost transformation
Operating as cost efficiently as possible is at the heart of our strategy. We’ve honed our approach and methodology over the past decade. It’s focused on simultaneously driving customer experience improvement and cost transformation, and it’s underpinned by rigorous analysis, operating management leadership and strong governance.

We still benchmark our cost of doing business against other companies inside and outside our sector to see where we can do even better.

Our largest programmes span multiple lines of business or complex changes within a single line of business. Continuous Improvement (CI) provides a complementary ‘bottom-up’ approach, empowering our people to make small but significant changes to how we do things every day. The result improves customer service and employee engagement while reducing the cost of failure.

Training is an important part of our approach, led by our in-house Cost Transformation Faculty, part of the BT Academy (page 53). The faculty is responsible for the continued development of both our change methodology and our ‘change professionals’.

This year alone we trained and coached more than 1,000 people. BT is the only UK organisation licensed by the British Quality Foundation to certify qualifications on such a scale at the most advanced levels in Lean¹, Six Sigma² and Change & Project Management methodologies. We’re now sharing our approach with other organisations.

How we did in the year
We’ve continued to pursue opportunities to further transform our costs. Despite this, our underlying operating costs excluding transit were up 1%, reflecting our investments in mobile, BT Sport and customer experience.

You can read about cost transformation within Our lines of business from page 56, and the group’s operating costs on page 94.

Programmes this year included:
– realising the cost synergies created by bringing together BT and EE, including buying synergies, rationalising our property estate, insourcing roles in both IT and networks, and creating a shared call centre planning function for the group;
– re-engineering important processes to improve our delivery of Ethernet, which has led to shorter lead times, higher output and improved quality of delivery;
– reducing our network costs in the UK and overseas by consolidating our technical facilities and deploying tools to better manage third-party costs; and
– reviewing the operating model for main areas of our business, see pages 70 and 93.

Our top priorities
Looking ahead, we’re focused on:
– establishing a new unit that brings together our customer experience and our group transformation teams. The new unit will enable us to make investments and take decisions about business performance that are more clearly aligned with our customer experience and productivity priorities;
– continuing to create synergies from the integration of BT and EE by sharing best practice on cost transformation;
– gaining greater efficiency from our shared service functions and operating model in the UK and internationally; and
– addressing the customer experience and cost of failure impacts in our consumer and business products.

Restructuring
We are also expanding and accelerating areas of our cost transformation programme. We are simplifying our central Group Functions and our internal service unit, Technology, Service & Operations to improve the effectiveness and efficiency of the services and infrastructure delivered to our lines of business. We are also restructuring the Global Services organisation and accelerating ongoing transformation programmes in other lines of business. We anticipate that these transformation programmes will save in total around £300m over two years, with a restructuring charge of around £300m over the next two years, of which this being incurred in 2017/18. This restructuring cost will be treated as a specific item. These changes will clarify accountabilities, remove duplication and improve efficiencies, removing around 4,000 roles mainly from managerial and back-office areas. The cost savings will provide headroom to offset market and regulatory pressures and support increased investment in delivering great customer experience and leading networks.

¹ Lean is a methodology for achieving small, incremental changes in processes in order to eliminate waste and improve efficiency and quality.
² Six Sigma is a data-driven methodology for eliminating defects in processes.
We’ve achieved our customer service performance goal for the year, but need to do better. We hit our revised financial guidance set in January 2017, but fell short of our financial targets set at the start of the year due to the issues in our Italian business and headwinds in UK public sector and international corporate markets.

**Progress against our KPIs**

We use four key performance indicators (KPIs) to measure how we’re doing against our strategy. Our financial KPIs include: the trend in underlying revenue excluding transit adjusted for the acquisition of EE; our adjusted earnings per share; and normalised free cash flow. Customer service improvement is the 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 122).

We’ve outlined our performance against each KPI here, together with an explanation 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 252 to 254.

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### Performance

Our revenue performance has been heavily impacted by the challenging conditions we’ve seen in the UK public sector and international corporate markets. This was offset by strong performance in our customer-facing lines of business driven by EE and Consumer.

We explain more about the performance of our lines of business from page 56.

### Definition

Underlying revenue reflects the overall performance of the group that will contribute to sustainable profitable revenue growth. We exclude the impact of specific items, foreign exchange movements and disposals and from 2016/17 this measure is calculated as though EE had been part of the group from 1 April 2015. This differs from how we usually adjust for acquisitions as explained on page 252. We focus on the trend in underlying revenue excluding transit because transit traffic is low margin and is affected by reductions in mobile termination rates, which are outside our control.

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### Key performance indicators

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Outlook for 2017/18
For 2017/18, we continue to expect underlying revenue excluding transit to be broadly flat year on year. Adjusted EBITDA is expected to be £7.5bn – £7.6bn.

Our outlook for normalised free cash flow over the cumulative two-year period 2016/17 and 2017/18 remains broadly unchanged. However, normalised free cash flow in 2016/17 of £2,782m was almost £300m above our outlook of around £2.5bn, due to early customer collections that will reverse in 2017/18. As such, normalised free cash flow in 2017/18 is now expected to be £2.7bn – £2.9bn, from £3.0bn – £3.2bn previously.

This outlook is provided on the basis of our existing investment plans. However, we continue to evaluate a range of additional investment opportunities. Our decision on whether to move forward with these will be affected by a number of factors, including the outcome of Ofcom’s Wholesale Local Access Market Review, responses to Openreach’s consultations and the results of any future spectrum auctions.

Adjusted earnings per share decreased 9% to 28.9p.

Performance
Adjusted profit after tax grew 5% to £2,869m this year reflecting the impact of the acquisition of EE.

Adjusted earnings per share decreased 9% to 28.9p. The weighted average number of shares in the market increased 15%.

Definition
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.

We generated normalised free cash flow of £2,782m. This was down £316m compared with last year, but is above our revised outlook of around £2.5bn due to earlier than expected customer collections which will reverse next year.

Performance
The decrease of £316m or 10% in our normalised free cash flow primarily reflects the impact of cash outflows in our Italian business as we unwound the effects of inappropriate working capital practices, as well as higher capital expenditure in relation to Emergency Services Network (ESN) and EE integration, partially offset by the benefit of an additional ten months of EE.

Definition
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.
Our business model

We create value for our stakeholders by developing and selling products and services that are an essential part of modern life.

Who we are
We’re one of the world’s leading communications services companies. We’re based in the UK but we serve customers across 180 countries (see page 70).

IIRC Capitals
This key provides a mapping to the ‘capitals’ of the IIRC’s Integrated Reporting (IR) Framework. You can find out more at: www.theiirc.org

Financial
• Financial strength
  - £2,782m normalised free cash flow generated in 2016/17

Human
• Our people
  - 106,400 employees

Manufactured
• Networks and physical assets
  - 26.5m premises passed by our fibre footprint
  - 5.6m BT Wi-fi hotspots

Intellectual
• Research and development
  - £520m R&D spend
  - 102 patents filed

Social
• Stakeholders and relationships
  - 790,000 shareholders

Natural
• Our brand
  - £18.6bn Millward Brown valuation of the BT brand

IIRC’s Integrated Reporting (IR) Framework.
This key provides a mapping to the ‘capitals’ of the IIRC Capitals (see page 71).

How we govern the group is described on page 103.

Governance
How we govern the group is described from page 103.

Remuneration
The report on directors’ remuneration can be found on page 122.

The resources and relationships that set us apart

Financial strength
We’re focused on growing our cash flow over the long term.

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

Networks and physical assets
We continue to invest in these to improve the experience we offer our customers.

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

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

Our brand
Our brands are a key asset.

Natural resources
We use some natural resources in doing business.

What we do

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

Our goal is growth, in particular the creation of sustainable, profitable, revenue growth.

In order to achieve our purpose and reach our goal we’ve adopted a strategy based on broadening and deepening our customer relationships.

How we’re organised
Our business is structured in a way that enables us to serve our customers, respond to their needs and consistently create value. We have six customer-facing lines of business supported by our internal service unit.

Stakeholder outcomes

Customers
- 6.4% improvement in Right First Time performance
- 2m BT Call Protect customers

Community
- £35.6m investment in society
- 31% BT volunteer people
- £471m raised for good causes

Employees
- 71% employee engagement outcome
- 88% maternity return rate
- 52% share price shares
- 6% improvement in sickness absence

Suppliers
- £14.1bn 65% spent with suppliers
- 8% with top 100 suppliers

Shareholders
- 15.40p full year dividend
- 10% increase year on year
What we do

In this section, we provide more details on our purpose, goal and strategy in the context of our business model. It shows how we create value for our stakeholders over the short, medium and long term.

Our purpose, goal and strategy

Our purpose
Our purpose is as simple as it is ambitious: to use the power of communications to make a better world.

The world is changing. Political upheaval, social and demographical changes, increasing economic inequality and worsening environmental impacts are becoming the new norm. We believe that technology has an important part to play in addressing these challenges and creating opportunities.

Our goal
Our goal is growth, in particular the creation of sustainable, profitable, revenue growth.

We will reinvest a significant proportion of our operating cash flow in networks, products and services that will drive long-term growth and value for our customers and shareholders. We will use the residual cash flow to fund our pensions, pay dividends to shareholders and maintain a strong balance sheet.

Our strategy
In order to achieve our purpose and deliver our goal we’ve adopted a strategy based on broadening and deepening our customer relationships. To create sustainable profitable revenue growth, we need stronger relationships with our customers.

We have a strong combination of people, technology, networks and other physical assets that sets us apart from our competitors. Importantly, we also have the financial strength to continue to invest in these areas.

Our most important resources and relationships are described from page 26.

Investing in what sets us apart

We invest in building and maintaining communications networks in the UK and overseas, as well as developing products and services that run over those networks.

Some investments, such as TV sports rights (page 58), have a lifespan of just a few years. Other investments, such as our fibre broadband network, are much longer term, with a pay-back period that lasts more than a decade.

We have a strong combination of people, technology, networks and other physical assets that sets us apart from our competitors. Importantly, we also have the financial strength to continue to invest in these areas.

Our most important resources and relationships are described from page 26.
Selling services integral to modern life

We sell fixed-voice, broadband, mobile and TV products and services to individuals and households in the UK. For businesses we offer a variety of communications services ranging from phone and broadband through to complex managed networks and IT services and cyber security protection. Many public services rely on our technologies and in the UK we help other communications providers to service their own customers.

We see growing demand for many of our products and services because they play such an integral role in modern life.

We sell our products and services through our customer-facing lines of business, and continuously improve our costs and productivity to drive revenue, margins and strong operating cash flow. We reinvest a significant proportion of this operating cash flow in the business, creating a virtuous circle that delivers value for our stakeholders over the short, medium and long term.

We use a range of channels to sell our products and services, including online, contact centres and account managers. We also have around 570 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 for regulated products, to five years or more for major managed services deals.

Creating value for all our stakeholders

Generating strong cash flow enables us to invest in the business, reduce net debt, support our pension fund and pay progressive dividends (see page 26).

But there’s much more to what we do than just making money. What we do matters. It helps millions of people communicate, enjoy entertainment, 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, supporting suppliers, paying tax and encouraging our employees’ volunteering activities.

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

Oversight and governance

Communications markets are dynamic and very competitive, particularly in the UK. There are multiple risks and opportunities, so it’s important our business model is flexible and sustainable. To help us we:

– have a framework to identify and mitigate the challenges we face (see page 44);
– use ‘insight’ teams to make sure we stay in tune with market opportunities and customer expectations;
– undertake an annual materiality review to understand the social and environmental issues that are important to our stakeholders; and
– use governance committees, such as our Design Council, to make sure we’re making the right investments.

Together, these help us anticipate and respond to changes in our markets including ‘macro events’ like Brexit and the prospect of the UK leaving the single European market. That’s why we’re confident we can deliver value over the short, medium and long term. It’s this confidence that underpins our assessment of the future prospects and viability of the group (see page 55).

Design Council

The Design Council is a sub-committee of the Operating Committee (page 14). It normally meets monthly and is responsible for aligning our capital investments in our networks, systems, platforms and products so that they reflect our strategy, serve the needs of our customers and are delivered cost-effectively.
Resources, relationships and sustainability

In this section we describe the key resources and relationships that underpin our business model. We also report on how our purpose can help to protect the environment.

Financial strength
Our financial strength means we can take a long-term view of investments.

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

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

- Deliver sustainable profitable revenue growth
- Grow EBITDA
- Grow free cash flow
- Invest in business
- Reduce net debt
- Support pension fund
- Pay progressive dividends

We have a prudent financial policy and strong governance, both of which help us make the right decisions in terms of planning investments, managing our debt and growing our business.

Strategic investment, based on our financial strength, will ensure the long-term growth and health of our business. At the same time, we’re working hard to reduce our net debt, support our pension fund in a responsible way and pay progressive dividends to our shareholders.

Our financial strength 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 of our people.

Our people
Our people help shape the modern world. The products and services they create and manage underpin everything from global trade and industry, to economic growth and social infrastructure.

Our people are a vital part of our ambition to deliver a great customer experience and sustainable, profitable revenue growth. Our people strategy supports this ambition by creating an environment where great people can do brilliant things as part of a dynamic business.

How our people make a difference
Our success isn’t just about what we do; it’s how we do things that really makes the difference.

We want great people to work for BT. We want them to feel engaged and inspired to be the best they can be. Together we create a high-performing, thriving organisation, where difference is celebrated and innovation is a big part of who we are.

At the heart of this are our people values. They’re aspirational, but realistic, capturing the spirit of BT at our best and reflecting how our customers want us to understand their needs, be easy to deal with and show we care.
This led us to three words:

Personal
Simple
Brilliant

Everyone in BT has a role to play in bringing these values to life. That’s how we’ll deliver on our purpose and use the power of communications to make the world a better place, every single day.

This year we were deeply disappointed with the improper practices of a few individuals in our Italian business and the investigation into historical Deemed Consent which identified poor processes at Openreach. We know the vast majority of our people want to do, and will do the right thing, but this highlights the necessity to live our new values and work in an ethical way at all times.

Our workforce
At 31 March 2017 we had 106,400 full-time equivalent (FTE) employees in 63 countries, with 82,800 based in the UK.

Like any successful business, we continually redeploy our people to meet the needs of our customers and ensure they get a first-class experience long into the future. Last year in the UK we redeployed 1,070 people, avoiding the need for redundancy.

An integrated workforce
Following the acquisition of EE we’re harmonising our policies, cultures and working practices to achieve our goal of becoming a truly integrated organisation. We’ve identified examples of best practice from both organisations that will act as building blocks for our “better than both” ambition. Our new values reflect this.

Recruiting talented people
In December 2016 we launched an exciting new career website, showing the world what makes BT such a great place to work.

This year, excluding acquisitions, we recruited nearly 17,500 people, almost 10,500 of whom are UK-based.

A customer-connected workforce
Improving the quality of our customer relationships remains central to our people strategy.

We’ve recruited more than 1,500 people into Openreach and 3,600 new people into customer-facing roles at our BT UK contact centres. We’ve also hired 1,400 people into EE stores and filled more than 1,700 positions in EE contact centres. Allowing for people leaving, the result is a net increase of 200 FTE employees across EE.

Finally, we continue to recognise the importance of retaining experience by converting almost 1,600 skilled agency workers to permanent employees.

Hiring more graduates
In 2016/17 we hired 300 graduates globally. We have plans to hire more than 450 in 2017/18 – our highest-ever intake.

Once again we’re in the top half of The Times Top 100 Graduate Employers. We’re one of only five companies in the IT and telecoms sector to feature in the top 100.
Investing for growth
At BT, we never stop learning – whether that’s on the job, with colleagues or in a formal training environment. It’s how we adapt to a changing world and rise to the challenges of tomorrow.

Around 25,000 of our people use our interactive Academy website every month and 7,000 of our EE employees used the EE Digital Academy this year. It’s a great way to build online learning communities where learning materials and events can be easily shared.

Awards won this year
Our Academy won a Silver Award at this year’s Learning Awards for its social and collaborative learning.

EE won a Princess Royal Training Award in 2016, training 358 employees over eight days following our takeover of 58 stores.

EE’s Priority Launch programme which is dedicated to improving employee performance won another Princess Royal Training Award in 2016.

Leadership
We’re still investing in our leadership capability, developing effective leaders at all levels and in all parts of our business. Our main leadership programmes, Challenging Leadership in Action and Pioneers have reached 1,400 leaders globally over 2016/17.

As well as welcoming EE to the BT family and introducing our new values, we’ve created two new leadership development programmes: Future Leaders and Connected Leaders.

Engaging our people
During the year we revised our employee survey and approach; the result (called Your Say) is shorter and features questions clearly linked to our strategy and values. We’ve made our report simpler for managers and their teams to understand so they can take action on the key priorities that will improve levels of engagement and better serve our customers.

- The first full Your Say survey using the revised format attracted over 85,000 responses, representing around 80% of our people.
- Almost 93,400 people (86%) responded to the January 2017 Your Say survey.
- The result has generated momentum in every engagement driver category, with 18 of the 20 driver items starting to move in the right direction; the following table provides a snapshot of this:

<table>
<thead>
<tr>
<th>SCORE</th>
<th>PERCENTAGE CHANGE SINCE PREVIOUS SURVEY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engagement outcome</td>
<td>71%</td>
</tr>
<tr>
<td></td>
<td>-1%</td>
</tr>
<tr>
<td>Leading our people</td>
<td>53%</td>
</tr>
<tr>
<td></td>
<td>-1%</td>
</tr>
<tr>
<td>Managing our people</td>
<td>78%</td>
</tr>
<tr>
<td></td>
<td>+3%</td>
</tr>
<tr>
<td>Empowering and equipping our people</td>
<td>58%</td>
</tr>
<tr>
<td></td>
<td>+3%</td>
</tr>
<tr>
<td>Enabling outstanding customer experience</td>
<td>59%</td>
</tr>
<tr>
<td></td>
<td>+3%</td>
</tr>
<tr>
<td>Working together</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>+4%</td>
</tr>
<tr>
<td>Personal growth</td>
<td>69%</td>
</tr>
<tr>
<td></td>
<td>+3%</td>
</tr>
</tbody>
</table>

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.
Volunteering
Our people can use up to three working days a year for volunteering activities. Some choose to help charities with particular challenges that need their expert input and knowledge. Others use their energy and enthusiasm to make a practical difference in their local communities.

This year more than 31% of our people spent over 39,000 days volunteering their time, with more than 2,000 people helping children and young adults improve their skills through our Tech Literacy and Work Ready programmes (see page 35).

We’ve run recruitment campaigns for graduates and apprentices that aim to attract more women and black and minority ethnic background (BAME) candidates. We’ve also rolled out unconscious bias training for all those involved in recruitment.

We’re proud that BT was named in The Times’ Top 50 Employers for Women awards 2017. Over 27,000 women now work for us, that’s 25% of our entire workforce. Our management team includes more than 10,000 women, representing 26% of the total, while our Board is now 27% female, with women accounting for three out of 11 Board members.

We want to create an environment where our people can feel open about themselves at work. As part of this, our LGBT+ employee network is asking people across the business to stand by LGBT+ colleagues to create a respectful and supportive working environment. The LGBT+ Allies programme calls on them to be visible and vocal in their support, and take an active interest in LGBT+ topics.

We’re a founder member of the Equality & Human Rights Commission Working Forward initiative, and our maternity handbook is being widely used as an example of best practice. Our maternity return rate continues to improve and currently stands well above the industry average at 88%, measured one year after women returned.

Along with Business in the Community, we sponsored The Race at Work report\[^1\] that informs the development of our diversity initiatives. We’ve also appointed a Race Champion to oversee this work and have seen a rise in BAME employees to 12%.

We are a ‘Disability Confident’\[^2\] 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.

An inclusive culture is fundamental to ensuring our diverse workforce can develop and thrive. We’ve focused on embedding themes of inclusivity within all our leadership development programmes for senior management teams, with a specific focus on developing diverse future talent.

Promoting wellbeing
We recognise that the wellbeing of our people feeds directly into our customers’ experience of BT and helps ensure the ongoing profitability of our business. We’ve looked at what we can do to increase wellbeing through our refreshed people strategy, drawing on the latest scientific evidence.

We’re working hard to eliminate all avoidable health and safety incidents by investing in improved training and equipment. A safe work environment is fundamental to our success, and we’re pleased to say we’ve cut our accident rate even further this year by 18%.

Our sickness absence rate was rising but we’ve turned that around this year and it’s now dropped by 6%. We’ve made particular progress in reducing mental ill health, which is down by 6%. Our other main sickness area is musculoskeletal disorders; in response we’ve developed a major initiative to help people avoid strains that’s part of our wider Fit for Life campaign. We’re pleased to say that in January we hit our five-year target of getting 10,000 people more active three years early.

\[^1\] http://race.bitc.org.uk/all-resources/research-articles/race-work-report

\[^2\] Disability Confident is an accreditation which includes Two Ticks that is given to organisations that are committed to employing disabled people.
We’ve extended our programmes to EE which has already helped bring sickness absence down across the group. We’re always looking for ways to improve, and have introduced prehabilitation – designed to shorten recovery time for our people undergoing surgery. In short, we know that keeping our people healthy and happy is good for them, good for business and good for society.

**Pay and benefits**

We regularly review our pay and benefits to make sure our remuneration is competitive when compared to other companies of a similar size and complexity.

Most of our UK-based engineering and support people are paid using terms and conditions negotiated through collective bargaining with our recognised trade unions, ensuring fairness for all. Our managers’ pay ranges are also set at competitive levels. Bonuses are determined through a combination of business performance and their personal contribution to the company.

Our executives may also get long-term share awards to reward the creation of shareholder value. The value they ultimately get 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 regulatory obligations, incentives for people in Openreach are tied to a combination of personal contribution and Openreach’s performance, rather than that of the wider group. These incentives are paid in cash, as opposed to BT shares.

We support our people by providing a range of retirement savings plans and country-specific benefits. In the UK, our main defined benefit scheme is the BT Pension Scheme, while our main defined contribution scheme is the BT Retirement Saving Scheme. You can read more about these on page 101.

**Sharing in success**

Around 52% of our people take part in one or more of our savings-related share option plans (known as saveshare), which operate in over 25 countries. In August 2016 almost 9,000 people in our 2011 saveshare plan were able to buy shares at 156p, representing an average gain of around £5,000 each.

**Our networks and physical assets**

Our network, service and IT platforms support the products our customers rely on around the world.

**Network platforms**

Our UK fixed-line network is one of our most valuable assets and our investment in fibre broadband is key to providing services to UK consumers. Our fibre broadband network now passes more than 26.5m UK premises, and we provide FTTP to more customers than any other UK service provider. To meet the demand from businesses, we’re continuing to expand the availability of Ethernet.

This year we’ve had record levels of traffic across our UK network, yet the investments we’ve made in broadband technology mean that more customers continue to get faster speeds over our network.

**Our global reach**

Our global network is supported by in-country networks and infrastructure. We offer our widest range of network services, access technologies and coverage in the UK, with extensive networks in Germany, Italy, the Netherlands, the Republic of Ireland and Spain.

The scale and reach of our global multi-protocol label switching (MPLS) network is a key competitive differentiator, and we’ve enhanced it this year with the launch of a software-defined wide area network capability.

We’re selectively expanding the reach of our network to support multinational companies in other regions. Virtual private network (VPN) services are integral to our ‘Cloud of Clouds’ vision (see page 71). They 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 lease connections from telecoms operators in that country. Where we need to serve customers in very remote locations, we make use of our extensive satellite connections.

Security is an important part of our business. The expertise we’ve gained from protecting our own networks helps us secure our customers’ networks.

**The EE network**

The EE network is the UK’s largest 4G network, now covering 80% of the UK’s geography and reaching over 99% of the population.
Mobile network
We’ll keep investing in 4G geographic coverage and capability, consolidating the EE network’s position as the biggest and fastest in the UK. Specifically we aim to expand 4G to reach 95% of the UK’s geography by the end of 2020. EE customers already enjoy the fastest 4G speeds in the UK, while technology such as LTE Advanced Pro gives them much greater capacity.

We have 120MHz of paired mobile spectrum. This means we’re able to offer speeds of up to 360Mbps in areas served by our 4G+ network.

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

And we’ve improved the way we maintain and manage key mobile sites. By insourcing work and integrating the EE and BT engineering workforce we’ve achieved real service and productivity improvements.

Wi-fi
We run one of the world’s biggest wi-fi networks, with around 5.6m BT Wi-fi hotspots.

Progress this year
This year we’ve:
– upgraded almost 500 mobile basestations to offer up to 360Mbps. We’ve also switched on our first Gigabit-enabled basestations in London, with Cardiff following in April 2017;
– addressed the growing demand for digital transformation through the introduction of a cloud-based unified communications service for business customers offering voice, messaging, conferencing and presence;
– demonstrated a world-record speed of 27Tbps over a 700km live network fibre between London and Dublin. This gives us confidence that our core network will be able to cope with the growth of data traffic; and
– demonstrated the first live customer trial in Europe delivering increased capacity by using three different passive optical network technologies over the same fibre.

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.

Our BT TV platform supports a growing number of customers and we’re increasing the range of services it delivers. We support BT Mobile, Plusnet Mobile and EE with our Mobile platform; it also underpins the Emergency Services Network (ESN).

Progress this year
This year we’ve:
– extended our BT Sport app to provide extra features during Premier League and FA Cup matches;
– added Dolby Atmos surround sound to Ultra HD football matches; and
– carried over one billion minutes per month on our BT Conferencing service platform.

IT systems platforms
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.

We’ve been simplifying the different technologies we use across BT. For example we’ve been migrating EE people to BT systems so we can all benefit from using a single, consistent set of applications.

Progress this year
This year we’ve:
– introduced systems and processes that mean we can sell BT products to EE customers; and
– delivered the technology behind the new BT Call Protect Service (page 57).

Properties
We have around 7,000 properties in the UK and 1,700 across the rest of the world.

We lease the majority of our UK properties from Telereal Trillium, part of the William Pears group, as part of a sale and leaseback arrangement we signed 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 busy rationalising office space, vacating offices in Belfast, Darlington, Langley, Leeds, Newcastle-under-Lyme and the former EE headquarters building in Paddington.

Outside the UK, we’ve consolidated a number of our key office locations in Amsterdam, Hong Kong, Madrid and Sydney to improve operational efficiency.

BT property portfolio (UK)*

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational sites</td>
<td>6,126</td>
</tr>
<tr>
<td>Data centres</td>
<td>21</td>
</tr>
<tr>
<td>Offices and depots</td>
<td>268</td>
</tr>
<tr>
<td>Retail outlets</td>
<td>574</td>
</tr>
</tbody>
</table>

* Excludes leased cell sites, retail concessions within other retailers’ premises and franchise-owned leases.
Research and development
Commercial success increasingly depends on innovation – that’s why we invest so much in research and development (R&D). The result is a track record of scientific breakthroughs, engineering successes and commercial progress.

Our proud history of innovation
We can trace our origins back to 1837, when Sir William Fothergill Cooke and Sir Charles Wheatstone filed a patent for the world’s first practical electric telegraph. From this they founded The Electric Telegraph Company, the seed business that eventually grew into BT. And we’ve kept innovating ever since – you can read more about our innovation story here:
www.btplc.com/Innovation/Innovationstory/index.htm

You can also see some of our past innovations in the Science Museum, including Cooke and Wheatstone’s electric telegraph and parts from Colossus, the world’s first programmable computer.

102
patent applications for inventions filed in 2016/17

4,900
patents and applications in our worldwide portfolio

Innovation milestones

1926
We established the world’s first two-way, Trans-Atlantic conversation by radio telephone, from our wireless station near Rugby.

1943
Tommy Flowers, working in the telecoms division of the GPO, developed the world’s first programmable electronic computer, Colossus.

1968
The world’s first digital telephone exchange was installed by us in London.

1980
We laid the world’s first, purpose-designed optical fibre submarine cable in Loch Fyne.

1999
Our live data call over a GPRS network was a world first.

2013
We conducted the world’s first G.fast trial in Ipswich, with our partner Huawei. G.fast is one of the technologies that underpins our ultrafast broadband vision.

2016
Our super-channel speed of 5.6Tbps in our core network set the record for the fastest data transmission over an operational fibre link.

This year we invested around £520m (2015/16: around £470m) in R&D. Over the last ten years we’ve been one of the largest investors in R&D both in the UK, and globally in the telecoms sector.

Our research activities keep producing new inventions. In 2016/17 we filed patent applications for 102 inventions (2015/16: 97), and as of 31 March 2017 had a worldwide portfolio of more than 4,900 patents and applications.

Open innovation
No one has a monopoly on good ideas. That’s why we’re always keen to work with partners, universities and customers from around the world. We call it our open innovation model.

We have eight global development centres including Adastral Park, our UK technology headquarters. It’s an innovation campus we share with over 90 high-tech companies, and is a workplace for around 3,800 people. This year we continued to grow our development centres in India.

We’ve 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.

Comparison based on total R&D spend 2006/07 to 2015/16.
Tommy Flowers Institute
This year we launched the Tommy Flowers Institute, a new Higher Education ICT training institute at Adastral Park.

Working with partners from across the ICT sector, we’ve designed the Institute to create world-class research leaders who can collaborate across multiple academic disciplines. They’ll focus on solving some of the challenges facing UK businesses, exploring areas such as cybersecurity, ‘Big Data’, autonomies and converged networks.

Examples of our R&D activities this year include:

Long-reach VDSL trial
Building on last year’s lab tests, we’re trialling long-reach VDSL in Isfield, Sussex and on the Isle of Lewis.

EAD Rapid
Ethernet Access Direct (EAD) is Openreach’s Ethernet product, offering data rates from 100Mbps to 10Gbps on a single fibre (see page 86).

We’ve developed EAD Rapid, a method to quickly provision a second EAD circuit where one already exists using the same fibre. This means that customers don’t have to wait for a second fibre to be installed before their new service will work.

Self-organising networks interworking
Self-organising network (SON) technology automates the planning, set up, management and repair of mobile networks. We’ve established a test lab at Adastral Park to test SON equipment. This led to a world-first demonstration of SON interoperation between different vendors’ 4G products.

Who was Tommy Flowers?
Tommy Flowers was an engineer who joined the General Post Office research station at Dollis Hill in London in 1930. He had a particular interest in the use of electronics for telephone exchanges.

In November 1943 Flowers developed ‘Colossus’ at the Ministry of Defence’s code-breaking facility in Bletchley Park. The world’s first programmable computer, Colossus was designed to counter the reputedly unbreakable Lorenz cipher. The thermionic valve-based, programmable Colossus successfully broke the Lorenz cipher and went on to provide information critical to the success of the D-Day landings and Allied war effort.

After the war, Flowers went on to direct ground-breaking research in the field of telecommunications, including the development of the first all-electronic telephone exchange.

5G
We’re working with a range of partners to deliver our 5G service ambitions, conducting trials of 5G-ready radio equipment at BT labs.
Resources, relationships and sustainability continued

Brand and reputation
Our organisation is made up of three strong brands: BT, EE and Plusnet. Between them, they cover UK and global markets for consumers, businesses and the public sector. We’ve worked hard to position all three so they maximise their reach while minimising overlap with each other. This multi-brand approach gives us greater agility in the market and increases our overall consideration.

BT
BT is the biggest of our three brands in terms of overall brand value. It stretches across consumer, business and public sector markets and operates in 180 countries.

This year, BT Sport continued to grow its viewership and win awards. These included the best TV or media innovation award for the BT Sport app at the Broadband World Forum.

In the UK business market, BT has the highest awareness of any telecoms, networks and IT services brand. We kept up the pace with strong business wins such as network and ICT services for Royal Mail Group and network infrastructure for the Co-operative Group. BT was also positioned by Gartner, Inc. as a Leader in the Magic Quadrant for Network Services, Global for the 13th consecutive time (see page 72).

Research company Millward Brown valued the BT brand at $18.6 billion in 2016. It’s possible that the impact of our Italian investigation may cause this to decline when the 2017 valuation is published. We describe what we’re doing to redress this on page 6.

EE
EE is the UK’s biggest mobile operator, positioned firmly at the cutting edge of technology. EE is also number one for spontaneous brand awareness, despite being almost a decade younger than any other major UK mobile brand.

Plusnet
Plusnet has a distinctive market position, offering UK consumers brilliant service at a great price.

This year, Plusnet won 21 awards, including the uSwitch awards for Best Customer Service and Best Home Broadband, and a Silver at the IPA Effectiveness Awards for effective advertising and brand-building.

Stakeholders
As well as our own people, BT’s main stakeholders are our customers, communities, shareholders, lenders, pension schemes, suppliers, government and regulatory authorities.

Our customers
Our customers include individuals, households, businesses of all sizes and public sector organisations.

You can read about our markets, customers and the services we offer them in our Lines of Business section, from page 56.

Interestingly, some of our customers are also our competitors. That’s because we sell wholesale products and services to other communications providers in the UK and overseas.

Communities and society
Our purpose influences our decisions and actions. This year we invested £35.6m to help a number of initiatives that deliver social and environmental benefits, as well as stimulating economic growth.

This investment is a mixture of cash, time volunteered, and in-kind contributions. Over the past five years we’ve invested over £157m, an average of 1.08% of our adjusted profit before tax.

Total investment in society
Year ended 31 March

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>% of previous year’s adjusted profit before taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>27.1</td>
<td>1.12%</td>
</tr>
<tr>
<td>2014</td>
<td>27.2</td>
<td>1.01%</td>
</tr>
<tr>
<td>2015</td>
<td>32.5</td>
<td>1.15%</td>
</tr>
<tr>
<td>2016</td>
<td>35.0</td>
<td>1.10%</td>
</tr>
<tr>
<td>2017</td>
<td>35.6</td>
<td>1.03%</td>
</tr>
</tbody>
</table>

Connecting society
Our 2020 ambitions
More than 9 out of 10 people in the UK will have access to our fibre-based products and services

We will help 10m people overcome social disadvantage, through the benefits our products and services can bring

We will help 5m children receive better teaching in computing and tech skills
Providing access to fast broadband
We recognise how important it is for everyone to have access to fast broadband. We continue to progress towards our 2020 ambition, with 88% of UK premises now able to access our fibre-based products and services. The acquisition of EE gives us the opportunity to extend our reach even further through mobile broadband.

Promoting digital inclusion
Digital transformation has the power to improve our quality of life, boost the economy and protect the environment. Research we published last year suggests that access to e-health applications could provide better healthcare for nearly 20m more people in the UK by 2030.

It’s always been our aim to make sure no-one is left out, especially vulnerable groups like the elderly, disabled or financially disadvantaged. We continue to develop products and services to help people overcome barriers to inclusion, such as BT Basic + Broadband, 4GEE WiFi, and our social housing proposition.

We also create awareness and collaboration through our presence on the UK Government’s Council for Digital Inclusion. Our partnership with DotEveryone is offering skills training to homeless people in the London Borough of Croydon. The ‘BT and Barclays Wi-Fi in our community’ programme now supports 100 libraries and community centres across the UK. The Tech4Good awards that we co-founded are now in their sixth year and still recognise organisations and individuals who use technology to improve the lives of others.

Outside the UK, we’ve completed the implementation of the healthcare management system within our Connecting Africa programme, winning the ‘Changing Lives’ award at the Broadband World Forum. Our insight is helping shape the World Economic Forum’s Internet4All initiative in Sub-Saharan Africa. As a partner in One Million Community Health Workers (1mCHW), we’re providing mobile health tools in Ghana. And we’ve helped provide IT training in India that’s reached over 700,000 people. We’ve also delivered wi-fi connectivity and services to refugee centres in Serbia, reaching 317,000 people.

Building a culture of tech literacy for the next generation
Today the UK faces a major challenge. The next generation are great tech consumers, but few are active creators. In a world where so much of our life and work depends on technology, that may be the difference between getting ahead or being left behind. The answer is to build a culture of tech literacy, so that young people grow up with the tech know-how to step up to the jobs of the future and to shape a more inclusive society that works for them. We’re helping to do that by championing tech literacy as a new cornerstone of modern education in primary schools, and by connecting to popular culture to inspire young people about the relevance of tech.

We believe that tech literacy is a fundamental skill for young minds, as important as reading and writing. That’s why the Barefoot Computing Project helps primary school teachers get confident with tech literacy concepts such as computational thinking which provides the building blocks of the digital world; like logic, sequencing, abstraction and programming. We’ve been providing a combination of free teaching materials and volunteer-led, face-to-face training. We’ve now reached more than 39,000 teachers, and through them more than a million children. And we know it’s having a positive impact:

Teachers are more confident after using Barefoot resources:

Teachers who use computational thinking in lessons see positive impacts on pupils’ learning:

99% say it helps pupils solve problems
82% say it helps pupils work together more collaboratively
96% say it improves pupils’ numeracy skills
69% say it improves pupils’ literacy skills

We’re also focusing on the transition to work, so that the next generation can fulfil future job needs. Work Ready gives 16–24 year olds, particularly from disadvantaged backgrounds, skills development and hands-on work experience of what it takes to thrive in a world of work powered by tech. So far more than 2,000 young people have taken part in this initiative.

As well as creating scaleable opportunities to put something back into the community, this can also provide great content for our TV channels and improve public perception of our company.

We again used MyDonate and our communications technology – with help from our volunteers – to support various large telethons. These included Stand Up To Cancer, Comic Relief and Children in Need.

In the UK, we supported a number of smaller charities by providing discounted calls and line rental charges to members of The Charities Club, saving those charities almost £1.3m on their phone bills.

We see sport as a positive vehicle for change in young people’s lives. This year we launched a new programme, in partnership with the Premier League, to help disabled people become more active in the sport of their choice, creating opportunities for them to develop the skills and build the confidence needed to realise their potential.

Our shareholders

We have more than 790,000 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 also keep our shareholders informed.

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;
– site visits and ‘teach-ins’ on key topics; and
– meetings and conference calls with investors both in the UK and around the world.

In 2016/17, we held 507 meetings or events with institutional investors. This compares with 353 in 2015/16.

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In the UK, we supported a number of smaller charities by providing discounted calls and line rental charges to members of The Charities Club, saving those charities almost £1.3m on their phone bills.

Research shows that interest drops off and career aspirations narrow in the early years of secondary school. Using the power of BT Sport, we delivered a pilot project at the Manchester Communication Academy to bring alive the tech behind the things young people love – using an Outside Broadcast truck to lift the lid on how much tech it takes to bring the best sporting action to their screens. We’re now working on plans for a national rollout to help more young people think again about how tech might show up in their futures.

Supporting charities and communities

Our 2020 ambition

Use our skills and technology to help generate more than £1bn for good causes

This year we helped generate £95m towards good causes, in support of our £1bn target. £62.6m of this was raised via MyDonate, our commission-free online fundraising and donations platform. That means we’ve now helped to generate £422m for good causes since we set ourselves this ambition in 2012.

Manchester Community Academy

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We were voted the best company for investor relations in England for the third year running in the Extel Survey 2016. We also maintained our second place in the European telecoms sector of the same survey.

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 our business and meeting our liquidity needs. You can find out more about this on page 97.

Our pension schemes

We operate defined benefit and defined contribution pension schemes. The largest by membership is the BT Pension Scheme (BTPS) which has around 300,000 members. You can read more about this on page 204.

[www.techliteracy.co.uk]
Our suppliers
Our suppliers provide the products and services that are so important in executing our strategy. We source from across the world and currently have suppliers in over 150 countries. We spent around £14.1bn with our suppliers this year (2015/16: £10.2bn). Around 65% of our spend is with our top 100 suppliers.

This year we consolidated the EE and BT supplier base. As part of the EE integration, we’ve combined the best practices and processes from both procurement teams to remove duplication and support synergies.

Our approach to procurement
We have around 360 BT people in 27 countries working with suppliers. As part of our cost transformation activities we aim to make the most of our relationships with our largest suppliers, demonstrating our commitment to them by establishing a specialist in-life contract management team. In-life contract management of our top 130 suppliers has helped us save around £10m.

Our Central Business Services Centre reviewed around 80,000 purchase orders accounting for £3.8bn of spend, helping us save more than £15m.

We’ve worked with other companies through our membership of an industry-recognised thought-leadership organisation. This gives us the peer benchmarking support, market insight and innovative techniques we need to optimise our procurement strategy.

Choosing our suppliers
We want to know who we’re doing business with and who’s acting on our behalf. So we:
- choose suppliers using principles that make sure we 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, as well as working with them to improve these.

You can find out more at: www.selling2bt.bt.com

Ethical standards in our supply chain
We want our suppliers’ employees to experience working conditions that are safe and fair. To help us assess the risks, we send an ethical standards questionnaire to suppliers of higher and medium-risk products and services. We follow up with suppliers identified as high or medium risk, based on their responses. This year we met our target of 100% follow-up within three months. We also visit supplier sites to make sure they meet our standards. This year we visited 63 sites (2015/16: 47 sites) around the world.

We published our first Modern Slavery Act Statement this year. We conducted a detailed risk assessment of our categories of spend, and as a result, engaged with more than 500 suppliers to improve our understanding of forced labour and human trafficking in our supply chains.

We continued our compliance with the Dodd-Frank Act and our Security and Exchange Commission (SEC) obligations by asking suppliers whether their products contained certain minerals that may have been sourced from conflict areas. In June 2016 we filed a report covering 2015 with the SEC, which described our conflict minerals approach and reflected the responses we got from our suppliers.

Paying our suppliers
This year the average time between invoice date and supplier payment was 67 days globally (2015/16: 62 days) with 50 days for UK invoices.

Suppliers can choose to use the BT Supplier Finance scheme which offers contracted suppliers the chance to be paid early. This cuts financing costs for participating suppliers, large or small, and is particularly attractive for SMEs (who make up around 48% of our supply base). We remain a signatory of the UK Prompt Payment Code, and are supporting Government initiatives to encourage small business growth.

Human rights
We’re committed to respecting human rights. We’re steered by the UN Guiding Principles on Business and Human Rights (UN Guiding Principles).

We believe our communications services have a positive impact on society, empowering people to exercise their rights and freedoms. At the same time we recognise that as a global company our work could adversely impact human rights, either directly or through our wider business relationships.

The importance of privacy and free expression
Privacy and free expression are still the rights most at risk from communication services. The Investigatory Powers Act 2016 (IPA) made significant changes to the investigatory powers regime in the UK, in a way that could have a considerable impact on the privacy of customer communications. We want our customers to know they can trust us with their information, which is why we played a central role in lobbying for changes to the IPA before it became law. To enhance our own processes, we’ve created a formal board committee (the Investigatory Powers Governance Committee), chaired by Sir Michael Rake, to oversee the role we play in the use of investigatory powers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of on-site supplier assessments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>47</td>
</tr>
<tr>
<td>2016</td>
<td>47</td>
</tr>
<tr>
<td>2017</td>
<td>63</td>
</tr>
</tbody>
</table>
What we’ve been doing
We’ve continued to champion free expression through our discussions with the Government on the Digital Economy Act. We’ve also reviewed our Acceptable Use Policy to make it easier for customers to understand how they should use our online services to express themselves.

We continue to review our processes, including our approach to human rights in our global activities. We’ve launched our enhanced human rights due diligence tool. And we’re leading the broadcast element of an international initiative looking at the impact of large-scale sporting events on human rights. We’ve also joined The Global Network Initiative on privacy and free expression as an observer.

Our first Modern Slavery Act statement describes our approach to preventing modern slavery in our supply chain and our business. We want to play our part in tackling this so we’re proud to be partnering with the charity Unseen to set up and resource the Modern Slavery Helpline and Resource Centre.

Our relationship with HM Government
We’re one of the largest suppliers of networked IT services to the UK public sector. We work with almost 1,800 organisations across central, local and devolved government, supporting some of the UK’s most vital services including health and social care, police and defence.

One of our most important contributions is helping organisations deliver better public services while keeping data secure.

For example:
- in Islington we’re linking up information systems to improve health and social care for the borough’s residents in a way that enables them to access their personal electronic health record.
- in Essex, thanks to new smartphones supplied by BT, police are spending more time fighting crime and being visible in their communities.

Another aspect of our relationship with government is that we can be required by law to do certain things and provide certain services. 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 states 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 in the UK and around the world. This is to ensure 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 transmission.

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 could, without regulation, be able to do things such as increase prices without losing business to competitors (as would happen in a fully competitive market).

In September 2016, the EC published proposals for its review of 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. A directive embodying the new code is expected to be adopted in mid-2018, taking effect mid- to late-2019.

The UK’s exit from the EU
When the UK leaves the EU, depending on the nature of any trade agreement reached, the UK may no longer be required to abide by the EU Regulatory Framework and other relevant EU rules. The existing regulations are widely recognised as having helped make the UK communications market one of the most competitive in the world, providing consumers with low prices and the best coverage of superfast broadband in the major EU countries. Therefore, while the existing regulations could be fine-tuned to suit specific UK market conditions, we do not expect fundamental changes.

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 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.

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 issues such as protecting consumers, access and interconnection, and allocating and transferring phone numbers.

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2 www.productsandservices.bt.com/products/static/terms/
4 www.modernslaveryhelpline.org/
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.

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 that role is taken by 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.

CPs affected by Ofcom decisions can appeal them through a number of routes, including the Competition Appeal Tribunal (CAT) and 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 the UK telecoms industry clarity and certainty about the way we provide wholesale regulated products. This in turn supports effective and fair competition in related retail markets. Ofcom has published a consultation proposing to release BT from the Undertakings in light of the new Commitments we made to Ofcom on 10 March 2017.

**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 keep pressing incumbent operators around the world, and their national regulatory authorities, for fairer, cost-related wholesale access to their networks.
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’ve 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>Fixed call originationa</td>
<td>RPI–3.6%</td>
<td>30 September 2016</td>
</tr>
<tr>
<td>Fixed call terminationa</td>
<td>RPI–3.1%</td>
<td>30 September 2016</td>
</tr>
<tr>
<td>Mobile call termination</td>
<td>CPI–3.3%</td>
<td>31 March 2018</td>
</tr>
<tr>
<td>Wholesale Line Rental [WLR]b</td>
<td>CPI–3.0%</td>
<td>31 March 2017</td>
</tr>
<tr>
<td>IPStreamc rental in Market A only</td>
<td>CPI–10.7%</td>
<td>31 March 2017</td>
</tr>
<tr>
<td>Metallic Path Facility rental [MPF]d</td>
<td>CPI+0.3%</td>
<td>31 March 2017</td>
</tr>
<tr>
<td>Shared Metallic Path Facility rental [SMPF]d</td>
<td>CPI–33.4%</td>
<td>31 March 2017</td>
</tr>
<tr>
<td>Ethernetc</td>
<td>CPI–13.5%</td>
<td>31 March 2019</td>
</tr>
<tr>
<td>Partial Private Circuits [PPCs]d</td>
<td>CPI–3.5%</td>
<td>31 March 2019</td>
</tr>
</tbody>
</table>

a See WLA, WBA and Narrowband market reviews in the next section “Other regulatory decisions and activities.”
b 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.
c Outside central London and <1Gbps.
d <3Mbps.

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. This broadly confirmed Ofcom’s proposals set out in its Draft Statement published in March, including:
– the charge controls that apply from 1 May 2016 until 31 March 2019;
– the introduction of minimum service levels for Openreach relating to the installation and repair of Ethernet services; and
– a requirement for Openreach to provide access to its fibre network for providers of high-speed services to businesses (known as ‘dark fibre’) from 1 October 2017.

We disagree with some aspects of Ofcom’s BCMR statement, including Ofcom’s proposals on Dark Fibre and have appealed these points to the Competition Appeal Tribunal (CAT). We expect Ofcom’s Cost Attribution Review assessment to also have an effect on other future price controls.

Wholesale local access market review
The current charge control set by Ofcom for the WLA market (ie MPF and SMPF) expired on 31 March 2017. Ofcom is currently undertaking a review of this market, but was not able to complete it by that date. As a result, we gave Ofcom a commitment to maintain a cap on the relevant price baskets of CPI–CPI until 31 December 2017, or the conclusion of Ofcom’s review if earlier. Generic Ethernet Access (GEA) rental has not previously been subject to price regulation but Ofcom’s consultation proposals, published on 31 March 2017, include introducing price regulation on the lower speed GEA 40/10 service. Ofcom expects to publish its final decision in early 2018 with new measures taking effect from 1 April 2018. On 31 March 2017, Ofcom also published a consultation on a new fair and reasonable charge for MPF rental at service level 1 for the period 1 April 2017 to 31 March 2018.

Wholesale broadband access (WBA) market review
The current control set by Ofcom for the WBA market (ie IPStream) expired on 31 March 2017. Ofcom is expected to undertake a review of this market in calendar Q2 2017. Meanwhile we gave Ofcom a commitment to maintain a cap on the relevant price baskets of CPI–CPI until 31 December 2017, or the conclusion of Ofcom’s review if earlier.

Narrowband market review
Ofcom is currently reviewing the narrowband market that covers fixed call origination, call termination and WLR, and published a consultation in December 2016. This review was delayed and had not been completed by the time the existing charge control was due to end. We gave Ofcom a commitment to maintain a cap on the relevant price baskets of CPI–CPI until 31 December 2017, or the conclusion of Ofcom’s review if earlier.

Mobile regulation
The current charge control on mobile call termination applies until 31 March 2018 and Ofcom intends to review the market again in the coming year and will set new regulation, if required. We are also subject to regulation when our customers travel within the European Union, for the retail prices we charge our customers and the wholesale prices between operators. The EU regulations cover voice, text and data prices, with a cut to the retail price caps on 30 April 2016. From 15 June 2017, under EU regulations, customers will be able to ‘Roam like home’ within the EU, paying domestic prices when travelling with no extra fees. At the wholesale level, price caps will remain in place, on an agreed glide path, reducing to 1 January 2022.

Standalone landline telephone services
On 1 December 2016 Ofcom announced a review of the retail market for consumers who buy telephone services in a standalone contract and not part of a bundle with other services such as broadband or pay-TV. This affects around 2.9m UK households. Ofcom has provisionally concluded that this is a separate retail market in which BT has SMP. Ofcom has consulted on a number of possible remedies including requiring us to cut the line rental charge by between £5 and £7 per month for customers taking these services in a standalone contract.
THE STRATEGIC REPORT

Protecting the environment
We believe that the Information and Communications Technology (ICT) industry plays a vital and ever-growing role in tackling climate change. We continue to participate in UN climate negotiations (e.g., COP22 in Marrakech), sharing our research and highlighting that investment in ICT can cut carbon emissions while creating social and economic value.

Our #go100percent campaign aims to inspire people to act more sustainably. In partnership with Sir Ben Ainslie and Land Rover BAR, we encouraged spectators at the America’s Cup World Series sailing event in Portsmouth to make pledges and to share their stories on sustainable ways of living, working and playing.

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

<table>
<thead>
<tr>
<th>3:1 ambition</th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer savings (Mt CO₂e)</td>
<td>7.6</td>
<td>10.0</td>
</tr>
<tr>
<td>Our impact (Mt CO₂e)</td>
<td>4.8</td>
<td>5.5</td>
</tr>
<tr>
<td>Ratio</td>
<td>1.6:1</td>
<td>1.8:1</td>
</tr>
</tbody>
</table>

Reducing our customers’ carbon footprint
Adding EE to our carbon footprint has impacted progress towards our 2020 ambition (see below); nevertheless, our underlying performance is still strong. Revenue from products contributing to carbon abatement totalled £5.3bn this year. This represents 22% of our total revenue.

Reducing our own carbon footprint
We report all the greenhouse gas (GHG) emission sources required under UK regulations. The following chart shows the increase this year in our total operational worldwide CO₂ equivalent (CO₂e) emissions due to the inclusion of EE.
Resources, relationships and sustainability continued

Last year we reported the early achievement of our science-based climate stabilisation intensity (CSI) target: that by 2020 we’d cut our operational worldwide carbon emissions per unit of value-added (our contribution to GDP) by 80% compared to 1996/97. We’re currently exploring a new target that includes EE.

On our second intensity measure, our scope 1 & 2 emissions this year totalled 12.3 tonnes CO₂ per £m revenue. This is a decrease of 1.5% from last year, and of 86% since our base year of 1996/97.

Our worldwide energy use*

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>GWh</td>
<td>2,616</td>
<td>2,526</td>
<td>2,412</td>
<td>2,338</td>
<td>2,630</td>
</tr>
<tr>
<td>EE (EE = 358)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Our worldwide greenhouse gas emissions*

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>1997 (Base)</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ktonnes</td>
<td>1,628</td>
<td>1,097</td>
<td>1,014</td>
<td>391</td>
<td>343</td>
</tr>
<tr>
<td></td>
<td>387</td>
<td>174</td>
<td>172</td>
<td>175</td>
<td></td>
</tr>
</tbody>
</table>

Reducing our energy use

We estimate that our energy savings programme has saved nearly £25m on our overall energy bill this year, contributing a total of £221m savings since 2009/10. This has helped us cut consumption by 2.7% this year, but is offset by the addition of EE’s energy use: overall, our consumption has risen by 12.5%. In Great Britain, we spent around £341m on energy and fuel (2015/16: £307m).

We maintain our commitment to buy our electricity from 100% renewable sources, in the UK and globally, where markets allow. This year, our acquisition of EE has reduced the UK figure from 100% to 84% and our worldwide figure from 95% to 82%. We’ve plans in place to move over 98% of EE’s directly-billed electricity supply onto renewables during 2017 and have increased our renewable contracts outside of the UK.

Conserving natural resources*

Reducing water usage

Most of our direct water usage is for office and catering facilities, or to cool equipment (for example, in telephone exchanges). We ask all our suppliers what actions they’re taking to cut water usage, as one of the improvement areas we look for through the Better Future Supplier Forum. We continue to target and reduce leaks, using half-hourly meter readings through our automatic monitoring and reporting programme. This has reduced our water consumption by more than 5% compared to last year but, including EE, our overall consumption has risen by nearly 17% compared to last year.

Managing waste products

Supporting the principles of the circular economy, we work with our suppliers to minimise the materials we use, and we reuse or recycle equipment and materials wherever possible. We also offer take-back schemes, both for consumer products like our BT Hub, and for mobile handsets. We’ve achieved our UK target, to send zero qualifying waste directly to landfill by year-end. We use specialist contractors to manage hazardous waste responsibly, complying with relevant regulations.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting charities and communities</td>
<td>Use our skills and technology to help generate more than £1bn for good causes</td>
<td>£94m raised for good causes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cumulative total: £327m since 2012</td>
<td>Cumulative total: £422m since 2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Inspire 66% (two-thirds) of our people to volunteer</td>
<td>27% of BT people volunteering</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>31% of BT people volunteering</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creating a connected society</td>
<td>More than 9/10 people in the UK will have access to our fibre-based products and services</td>
<td>8.5 out of 10 UK premises passed</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Help 10m people overcome social disadvantage through the benefits our products and services can bring</td>
<td>2.6m people reached</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3.9m people reached</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creating a culture of tech literacy</td>
<td>Help 5m children to receive better teaching in computer skills</td>
<td>344,000 children reached</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.1m children reached</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivering environmental benefits</td>
<td>Enable customers to reduce their carbon emissions by at least three times the end-to-end carbon impact of our business</td>
<td>1.6:1 achieved</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.8:1 achieved</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Our foundation measures</th>
<th>2015/16 performance</th>
<th>2016/17 performance</th>
<th>Status</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our investment</td>
<td>Investment to accelerate our purposeful business approach; to be more than 1% of adjusted profit before tax (PBT)</td>
<td>1.10% of PBT invested</td>
<td>✔️</td>
<td>34</td>
</tr>
<tr>
<td>Our customers</td>
<td>Customer service: to consistently improve RFT across our entire customer base</td>
<td>3.0% reduction</td>
<td>✔️</td>
<td>17</td>
</tr>
<tr>
<td>Our employees</td>
<td>Employee engagement index: to maintain or improve our relationship with our employees</td>
<td>3.81/5 achieved</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sickness absence rate: to maintain or reduce % of calendar days lost to sickness</td>
<td>2.33% calendar days lost to sickness</td>
<td>✔️</td>
<td>29</td>
</tr>
<tr>
<td></td>
<td>Ethical performance: to maintain or improve our employees’ perception</td>
<td>4.31/5 achieved</td>
<td>✔️</td>
<td>28</td>
</tr>
<tr>
<td>Our suppliers</td>
<td>Ethical trading: across our supply chain, with focus on human rights. Achieve 100% follow-up within three months, for all suppliers identified as high or medium risk, through our ethical standards questionnaire</td>
<td>100% follow-up within three months</td>
<td>✔️</td>
<td>37</td>
</tr>
<tr>
<td>Our environmental impact</td>
<td>CO₂e emissions: a measure of our climate change impact. We’ll reduce our worldwide CO₂e emission intensity by 80% by December 2020¹¹</td>
<td>81% reduction in net CO₂e emission intensity vs base levels (1996/97)</td>
<td>✔️</td>
<td>41</td>
</tr>
</tbody>
</table>

To find out more about our 2020 ambitions, our methodologies and how our results are calculated, take a look at [www.bt.com/deliveringourpurpose](http://www.bt.com/deliveringourpurpose)

¹² From our new employee survey (January 2017); not comparable with last year’s result.

¹¹ After achieving our 2020 target last year, we’re currently developing a new target to include EE.
Our approach to risk management

Like any business, we face a number of risks and uncertainties. Some come from outside our organisation, others from within. Some we can’t control, some we can. Many of our risks are similar to those felt by similar 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 that are either currently unknown, or currently seen as less important but with the potential to become more so in the future.

Events outside BT present both risks and opportunities. We focus our efforts on predicting and reducing risks while aiming to take advantage of any opportunities that may emerge.

We’ve also seen more interaction between our risks. For example increased costs of regulation, coupled with the risk of increased pension deficit payments, could impact our ability to invest to improve customer experience and drive revenue growth. We’ve also seen a growing interplay between our regulation and political risks.

In the section below, we explain what we’re doing to prevent our main risks from materialising, or to limit their impact if they’re unavoidable.

Our biggest risks and uncertainties should be considered alongside the risk management process, the forward-looking statements in this document and the associated cautionary statement (see page 260).

How we manage risk

To meet our objectives, build shareholder value and promote our stakeholders’ interests, it’s essential we manage risk. To help us we’ve developed a group-wide risk management process with four stages:

Identification

Monitoring

Response

Evaluation

Business activities

Changes over the year

In 2015/16 we improved the way we manage risk through our response to the changes to the UK Corporate Governance Code, trialling the use of risk modelling software, and providing risk management training to colleagues. Specific improvements for 2016/17 included:

Investment cases

We’ve been helping our colleagues understand the risks linked to their investment cases. In doing so, we’re helping our investment committees make better decisions on where to invest and how we can keep any risks linked to those investments to a minimum.

Root cause analysis

This year we’ve trialled a new way of learning from incidents and ‘near misses’. We believe it will help us learn some important risk management lessons, which we can then use to stop other risks materialising in the future.

Sharing good practice

In May we held a conference for everybody involved in the BT risk management process, introduced by Gavin Patterson. We’re now exploring other ways of sharing good practice across our risk community.

Enterprise risk framework

Line of business and TSO audit and risk committees

Line of business and TSO leadership teams

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

Group Risk Panel

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.

Operating Committee

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.

Audit and Risk Committee

Board

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 TSO.
Our principal risks

Compliance risks

Ethical culture and controls

<table>
<thead>
<tr>
<th>Link to strategy</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Deliver great customer experience</td>
<td></td>
</tr>
<tr>
<td>- Transform our costs</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Link to business model</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Financial capital</td>
</tr>
<tr>
<td>- Human capital</td>
</tr>
<tr>
<td>- Social capital</td>
</tr>
</tbody>
</table>

It's crucial that we maintain high ethical standards. We don't tolerate fraud, bribery, any form of corruption or any illegal or unethical activity.

We follow local and international law, including anti-corruption and bribery laws. The UK Bribery Act and US Foreign Corrupt Practices Act (FCPA) 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.

We also face the risks associated with inappropriate and unethical behaviour in local and other markets by our people or associates, such as suppliers or agents, which can be difficult to detect as well as facing the risks that our controls are designed to prevent, detect and correct such behaviour may be circumvented. Controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions, regardless of how remote.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Impact

If our people, or associates like suppliers or agents, breach anti-corruption, bribery, sanctions or other legislation there could be significant penalties, criminal prosecution and damage to our brand. This could have an 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, bribery, violating sanctions regulations or other laws, that could lead to reputational damage with investors, regulators and customers. If fraud is committed, there is a risk of financial misstatement which if undetected can have a material financial impact and potential litigation and regulatory consequences.

Financial and other controls play an important part in our ability to prevent and detect inappropriate and unethical behaviour. This includes fraud, deliberate financial misstatement and improper accounting practices, as well as breaches of anti-corruption, bribery, or sanctions legislation. If the design, operation or the assurance over these controls is ineffective or they are circumvented, there is a greater risk that the impacts described above may materialise, as they did this year with respect to our Italian business.

What’s changed over the last year?

During the year we identified inappropriate behaviour in our Italian business. Our investigation identified collusion and override of controls within our Italian business and that our monitoring controls did not identify the circumvention and override, resulting in the misstatement of results going undetected for a number of years. As a result of our US listing we are required to make certain assessments of our controls as of 31 March 2017 for the purposes of Sarbanes-Oxley. Despite the remediation steps we took, the controls had not operated for sufficient time to allow assurance testing to confirm their effectiveness under Sarbanes-Oxley. We have therefore concluded for these purposes that our controls were ineffective as of 31 March 2017 due to a material control weakness with regard to our Italian business.

For further details of what we found, how we’ve responded, and what our ongoing plans are, see page 6.

Our acquisition of EE has grown our UK business, and we’ve made EE a part of our ACB compliance programme and financial and disclosure control environment. In terms of ACB enforcement generally, we’ve seen the first significant cases stemming from the UK Bribery Act, and in the US 27 companies paid about $2.5 billion to resolve FCPA cases. 2016 was the biggest enforcement year in FCPA history – both the number of enforcement actions and the overall amounts paid to resolve them.

How we’re mitigating the risk

We’ve put a number of controls in place to address risk in this area. These include the steps we have taken to improve our controls within Italy. We have also taken steps to enhance our wider controls that monitor our overseas operations in our shared service centres, Global Services and at a group level. While we have taken steps to improve our control environment, we recognise we have more to do. Further activities will include increasing and improving the capabilities of the controlling function and the audit function outside the UK, and further developing our integrated risk and assurance reporting processes. We are also enhancing our controls and compliance programme to strengthen awareness of the standards we expect, the capabilities of our people, and to reinforce the importance of doing business in an ethical, disciplined and standardised way.

Our relevant controls include an anti-corruption and bribery programme and ‘The Way We Work’, our ethical code, available in 14 languages. We ask all our people to complete training and sign up to ‘The Way We Work’ which includes our zero tolerance to bribery and corruption. We have policies covering gifts, hospitality, charitable donations and sponsorship. We run tailored 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. All ‘Speak Up’ reports are passed to the director of ethics and compliance for action. Our confidential hotline is operated by a third party and is available to employees and third-party contractors who can remain anonymous if they choose to. Any reports received direct by BT are also dealt with in accordance with our Speak Up procedures.

Our internal audit team regularly runs checks on our business. External providers also assess areas we think are higher risk (such as the use of agents), to make sure people understand our policies and that controls are working. We do due diligence checks on third parties like suppliers, agents, resellers and distributors. Our policy is that procurement contracts include anti-corruption and bribery clauses.
Our principal risks continued

Compliance risks continued

Our sanctions policy helps us keep track of trade sanctions and export controls that apply to us. That means all bids involving a country with sanctions imposed by the EU and/or the US need approval. The policy also mandates everyone in BT must use our internal shipping system to arrange international exports, as it runs compliance checks and flags any orders which need an export licence.

BT Italy – our response

In response to the inappropriate behaviours identified in our Italian business, we suspended a number of BT Italy’s senior management team who have now left the business. The president of our European operations has also left the business. We have appointed a new president of our European operations and a new CEO and CFO of BT Italy, from outside the Italian executive management team.

We appointed KPMG, with support and oversight from our Legal, Governance and Compliance function and Freshfields Bruckhaus Deringer, reporting directly to both the chair of the Audit & Risk Committee and BT Group chairman, to perform an independent investigation of the systems and controls relating to our Italian business. We also conducted a broader review of financial processes, systems and controls across the group. We are acting on both the recommendations of KPMG and our own observations and have taken steps to improve our controls within Italy. We have also taken steps to enhance our wider controls that monitor our overseas operations in our shared service centres, Global Services and at a group level.

As a result of our US listing we are required to make certain assessments of our controls as of 31 March 2017 for the purposes of Sarbanes-Oxley. Despite the remediation steps we took, the controls had not operated for sufficient time to allow assurance testing to confirm their effectiveness under Sarbanes-Oxley. We have therefore concluded for these purposes that our controls were ineffective as of 31 March 2017 due to a material weakness with regards to our Italian business.

Beyond Italy, we have completed detailed balance sheet reviews in seven selected country operations in Global Services outside of the UK. These thorough reviews were supported by EY, and did not identify any similar issues or areas of concern elsewhere giving us comfort that the inappropriate behaviours were isolated to Italy.

While we have taken steps to improve our control environment, we recognise we have more to do. Further activities will include increasing the resources and improving the capabilities of the controlling function and the audit function outside the UK, and further developing our integrated risk and assurance reporting processes. We are also enhancing our controls and compliance programme to strengthen awareness of the standards we expect, the capabilities of our people, and to reinforce the importance of doing business in an ethical, disciplined and standardised way.

The new CEO and CFO of BT Italy will continue to review the Italian management and finance teams and work with BT Group Ethics and Compliance to improve the governance, compliance and financial safeguards. Going forward, we will also continue to rotate senior management among countries to ensure an independently governed and rigorously controlled organisation throughout all parts of Global Services.

Processing our customers’ data

We control and process huge quantities of customer data around the world, so observing data privacy laws is something we take extremely seriously. It’s essential that individuals and businesses can trust us to do the right thing with their data.

Firstly, we must make sure our customers’ data is secure, and protected against both internal and external threats (e.g. cyber attacks). Being trusted with our customers’ data goes further than that though. 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. An individual’s fundamental right to privacy is reflected in the fact that 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 web of national data laws and society’s ethical expectations.

Impact

Failing to stick to data protection and privacy laws could result in 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 that 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 growth of data threats, with several big organisations suffering incidents.

There’s been a general trend toward bigger financial penalties and more frequent public shaminigs for organisations who break global privacy and data protection laws.
How we’re mitigating the risks

We’ve introduced governance to clarify responsibilities for data activities across our 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, our 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 privacy training focuses on the individual’s role, and uses relevant scenarios to 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 BT 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. If we do that, there’s a much better chance of data compliance becoming ‘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.

Our mitigations against cyber attacks are described in our Security and resilience risk (page 52).

Health and safety

Our business – and in particular our UK engineering workforce – does a lot of work where our people could be injured or their health could be damaged. It’s essential we do all we can to keep our people safe; not only is it the law but it also means they’ll be better at their jobs.

Aquiring EE has also raised the exposure of our customers and staff to radio frequency emissions from wireless mobile devices and mobile telecoms sites. Media reports have suggested these emissions 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 Organization’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. Even so, we can’t provide absolute assurance that research in the future won’t establish links between radio frequency emissions and health risks.

Impact

Failure to implement and maintain effective health and safety management could have a huge 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 result in our people and third parties making compensation claims against us, and fines or other sanctions being issued by regulators. 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.

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, as well as new contracts requiring us 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 at height.

The integration of EE has introduced new elements such as high street retail and an expansion of existing risks such as operating customer contact centres.

We’re continuing to implement a strategy which embeds effective management of health and safety into all our operations and promotes health and wellbeing to help improve business performance. Two prosecutions against us for past incidents concluded in 2016 resulting in guilty verdicts and fines. Levels of sickness absence rose in the first part of the year but this trend reversed in the second half. Our workforce has also lost less time from injuries as a result of accidents.

How we’re mitigating the risks

We’re implementing the next stage of a Board-endorsed health, safety and wellbeing strategy. As part of this, each year every 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 our people undertake training in basic health and safety.

Wherever we do business around the world, we put in place policies and programmes to make sure we adhere to our own standards and that those standards meet or exceed minimum legal requirements. We also work to make sure our products comply with safety regulations, including meeting industry standards for radio frequency emissions.

We provide advice 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.
Our principal risks continued

Strategic and financial risks

Growth in a competitive market

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Our markets are characterised by:
- constant, rapid change;
- strong, 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

It’s important we grow our revenue profitably and sustainably to protect our cash flow. Failure to do so could limit our ability to invest in the business or pay dividends. It’s also important that we manage our cost base to be able to invest in growth opportunities.

What’s changed over the last year?

We’ve been executing our strategy by:
- extending our 4G and fibre broadband coverage;
- making good progress on integrating EE and hitting our synergy targets; and
- investing to improve customer experience and the products we offer.

Our leading competitors have also been very active. Important developments included:
- Virgin Media expanding its UK network;
- Sky and Gamma launching new mobile services;
- 21st Century Fox’s bidding for the share in Sky it didn’t already own;
- Sky launching a Now-TV branded triple-play bundle without a contract; and
- TalkTalk’s continued success at growing its data revenues.

The level of competitive risk facing the business has worsened over the last 12 months. Some of our leading telecoms competitors have taken important steps to grow their revenues. In addition the threat from new competitors, enabled by disruptive technologies, continues to increase. Leading players, operating in adjacent markets, still view telecoms services as an attractive growth opportunity. In particular OTT providers, who already dominate messaging, are now increasingly turning their attention to voice.

There are also economic risks that could threaten revenue growth:
- Downside risks to the UK and global economy are bigger than they were 12 months ago.
- It’s unclear how much the UK economy will be impacted by the vote to leave the European Union, nor is it clear what trade arrangements will be agreed after the UK leaves.

How we’re mitigating the risks

We stick to our strategy, which means:
- broadening and deepening our customer relationships;
- providing a great customer experience; and
- investing for growth.

It also means transforming our costs. We take a forensic approach, supported by a team of specialists, to identifying opportunities to better manage our cost base and maximise our ability to invest in customer experience and growth. However, these opportunities are becoming more challenging to identify and deliver as our cost transformation programme matures.

If we do all this, we’ll grow our revenue profitably and sustainably. We’ve been investing in five key areas; providing differentiated content, services and applications, making our UK network the best in the country, becoming a fully converged service provider, securing market leadership in all our UK segments and meeting the needs of multinational customers. Our transformation programmes continue to drive service and productivity improvement. We can also seek changes in regulation to make things fairer.

Communications industry regulation

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Regulation affects much of what we do.

In the UK, where Ofcom identifies concerns with the competitiveness of markets, it can set regulatory rules that require us to provide certain services on specified terms to our customers. The rules it imposes are assessed every three years via a series of market reviews focused on the supply of network access services to wholesale customers [for example, the supply of fixed access lines to support the provision of phone or broadband services, or the supply of business connectivity services], Ofcom can extend or remove rules as a result of its findings in a market review. Where controls are placed on our prices, these can be tightened or relaxed following a review of the expected costs of future supply. Ofcom will investigate our compliance with any regulatory rules in place and can impose fines and restitution on us if we don’t comply.

Ofcom also has powers to regulate the terms on which we get supplied with certain services by others — for instance, mobile call termination and wholesale access to certain pay-TV channels. This can increase our costs and affect 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

Certain of our revenues come from supplying wholesale services to markets where Ofcom has found us to have significant market power. Most of these revenues relate to services where regulatory rules require us to cut average prices each year by a specific, real-term percentage for a three-year period.

Where other telecoms providers ask Ofcom to resolve disputes with us, there’s a risk that Ofcom may set the prices at which we supply services, and/or make us provide additional services. In some circumstances, Ofcom can adjust past prices and make us pay back amounts to wholesale customers.
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.

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

There's been a lot of regulatory activity in different areas over the last year. Ofcom has started market reviews in relation to wholesale narrowband access, wholesale local access and wholesale broadband access. We’ve summarised this in the Regulation section on page 38.

In March 2017 Ofcom found that Openreach had breached its contractual and regulatory obligations by inadequately and retrospectively applying Deemed Consent between January 2013 and December 2014; and that Openreach then failed to compensate communications providers fully. As a result of the findings, Ofcom imposed a fine on BT and Openreach agreed to compensate communications providers outside of BT in full. See page 41 for further information.

Alongside the standard cycle of market reviews, in March 2015 Ofcom announced an overarching strategic review of the digital communications market. In March 2017 we reached agreement with Ofcom on the legal separation of Openreach, subject to consultation by Ofcom and changes to legislation to retain the Crown Guarantee on Openreach employees. Under this arrangement Openreach will have its own board and make its own investment decisions, within an overall budget set by BT. Although we believe that this is a good solution for BT and the UK communications market, we will face the risks and challenges that come with operating an independent business within BT.

**How we're mitigating the risks**

Our team of regulatory specialists includes economists, accountants and lawyers. Together with legal experts and external advisers they check for potential disputes with other CPs and look for opportunities to change regulatory rules. They talk regularly with regulators and other key influencers to understand their outlook and to make our position clear. Their insight also helps us to forecast future regulatory outcomes. We can then build sensible expectations into our financial plans and investment decisions.

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.

We can appeal any regulatory decisions we think are wrong, albeit the basis upon which these appeals are judged in the UK has changed under the Digital Economy Act. We can also raise disputes or complain (under the relevant regulatory framework or competition law) where we have problems getting access to wholesale services – such as wholesale pay-TV channels or to other access networks.

We’re also working hard to deliver a great customer experience, going beyond our minimum regulatory obligations.

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**Pensions**

We have a large funding obligation to our defined benefit ('DB') pension schemes. The largest of these, the BT Pension Scheme (BTPS or Scheme), represents over 97% of our pension obligations. The BTPS faces similar risks to other UK DB 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**

The last funding valuation of the BTPS, as at 30 June 2014, provides certainty over scheme funding until the forthcoming valuation, due to start in June 2017, is concluded.

If there’s an increase in the pension deficit at the next valuation date, we may have to increase deficit payments into the Scheme. Higher deficit payments could mean less money available to invest, pay out as dividends or repay debt as it matures, which could in turn affect our share price and credit rating.

We’re considering a number of options for funding the deficit after the next valuation, as at 30 June 2017. These options include considering whether there are alternative approaches to only making cash payments, including arrangements that would give the BTPS a prior claim over certain BT assets.

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

The pension deficit of the BTPS is calculated as the value of the assets less the value of the liabilities. The deficit at the valuation date will influence the deficit payments we agree.

A number of things affect the liabilities, including expected future investment returns at the valuation date. When considering expected future returns, we review different factors including yields (or returns) on government bonds, which have fallen in the year and 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.

Asset returns have been positive over the year with strong returns from equities and government bonds.

**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 investment strategy aims to mitigate the impact of increases in the liabilities, for example by investing in assets that will increase in value if future inflation expectations rise. The assets held are also 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 we calculate liabilities on a prudent basis.
Our principal risks continued
Strategic and financial risks continued

Political risk

Across our operations we are exposed to the effects of political and geopolitical risks, in particular:

- In the UK, internet access is increasingly seen as an essential part of people’s lives. As a result, the level of political debate and focus on issues such as quality and speed of service has increased. As well as providing a critical element of the UK’s national infrastructure, we are also engaged in supporting high profile programmes such as BDUK and the Emergency Services Network.
- The result of the UK referendum to leave the European Union (‘Brexit’) has significantly increased political uncertainty. This has been exacerbated by the possibility of further political change across the United Kingdom, most notably a second referendum that may be held on Scottish independence.
- Outside the UK, political and geopolitical risk can impact our business through changes in the regulatory and competitive landscape, but also as a direct threat to our people and assets as a result of social unrest or a break down in the rule of law.

Potential impact

Political uncertainty can have direct financial consequences across the economy, impacting for example foreign exchange rates, the availability and cost of capital, interest rates and also resulting in changes in the tax regime. For BT specifically, the most significant impact of political risk is its potential interaction with some of our other Principal Risks. In the UK, we are seeing an increasing overlap between political debate and the regulatory environment, with the potential that our Communications Industry Regulation risk increases as a result.

The impacts of Brexit are still uncertain while the UK’s future relationship with the EU is determined. However, there is the potential for our costs to increase (for example through any changes required to our systems to reflect new taxes or customs duties); regulatory risk to increase as a result of any future divergence with the EU regime, including on data flows; supplier disruption to occur as a result of challenges in suppliers’ own organisations and supply chains; and for delivery of a great customer experience to become more challenging if it becomes harder for us to recruit and retain talent.

Geopolitical risk outside the UK can most clearly impact our Communications Industry Regulation risk, but also our Security and Resilience risks where it poses a threat to the continuity of our operations.

What’s changed over the last year?

The most significant development was the referendum on 23 June 2016 by which the UK voted to leave the EU. That was immediately followed by political change, a fall in sterling, UK bond credit rating downgrades and uncertainty for business and foreign direct investment. On 29 March 2017, Article 50 was triggered initiating a two-year period of negotiation for the UK to leave the EU. In the same month, Scottish First Minister Nicola Sturgeon confirmed she would seek the approval of the Scottish Parliament to open discussions with the UK Government on legislating for a second Scottish independence referendum. UK Prime Minister Theresa May has said that permission would not be forthcoming before Brexit negotiations, potentially opening the possibility of a referendum in 2019 or 2020. Further change may also now follow as a result of the General Election called for 8 June 2017. From a telecoms perspective, this has been played out against the backdrop of the progression of the Digital Economy Act and in particular debate around Ofcom’s Digital Communications Review (see page 39), and of dialogue on the European Electronic Communications Code revisions.

How we’re mitigating the risks

We maintain strong engagement with the UK Government, key departments such as DCMS and BDUK, MPs, peers, the media and with consumer bodies; and with Governments and politicians in Brussels and in our key markets around the world. We seek to inform public debate around telecommunications through fact-based evidence concerning the market and BT’s role within it.

As explained in the case study on page 51, we have set up a programme across the business to help us understand and manage the risks associated with Brexit. This will also consider other potential impacts such as those associated with a second Scottish independence referendum, and is led by a steering group chaired by the group finance director. We’ve also offered our views to Government and business groups on related policy areas, including responding to Parliamentary inquiries.

Outside the UK, our Public Affairs and regulatory teams work to help support governments and regulators in ensuring that markets work in an open and fair way for the benefit of customers and competition. Geopolitical risks are tracked by a committee, with our security and business continuity teams particularly focused on protecting our people and our assets.

Financial risk

In common with other major international businesses, we are exposed to a variety of financial risks. These include treasury risks, which arise principally from market risk (including interest rate risk and foreign exchange risk), credit risk, and liquidity risk. They also include tax risk, principally that we need to understand fully the current and future tax consequences of business decisions to comply with tax rules and avoid financial and reputational damage.
Potential impact

If there is an adverse movement in foreign exchange and interest rates there could be a negative impact on the group’s profitability, cash flow, and balance sheet. Sensitivity in the income statement and shareholders’ equity arising from interest rate and foreign exchange volatility is shown in note 27 to the Consolidated Financial Statements.

The failure of Treasury counterparties to honour financial obligations could have an adverse impact on the group’s liquidity (for example from the loss of cash deposits) and profitability (for example from increased finance expenses). A deterioration in liquidity could have an adverse impact on the Board’s assessment of going concern, particularly if combined with an inability to refinance maturing debt.

If we fail to comply with tax rules then we could face financial penalties and reputational damage. Beyond compliance, if we don’t adequately reflect the current and future tax consequences in our business decisions, we might make bad decisions resulting in financial loss and potentially financial misstatements, as well as reputational damage.

What’s changed over the last year?

Following the UK referendum to leave the European Union, we saw increased volatility in foreign exchange rates. However, we continue to face the same treasury risks as in financial year 2015/16.

From a taxation perspective, BT’s business continues to evolve rapidly, creating different tax consequences, for example the acquisition of EE and the DCR. Global tax rules also continue to evolve, for example the OECD’s Base Erosion and Profit Shifting project and the prospect of US tax reform, changing the current and future tax consequences of business decisions.

How we’re mitigating the risks

We have a centralised treasury function whose primary role is to manage liquidity and funding requirements as well as our exposure to associated financial and market risks, including credit risk, interest rate risk and foreign exchange risk in—line with Board approved policies. These risk management policies are described in detail in note 27 to the Consolidated Financial Statements. The Board reviews liquidity and funding requirements of the group on an ongoing basis.

A strong governance framework is also at the heart of our mitigation approach to tax risk. We’ve a framework for managing taxes that is set centrally and agreed by the Board. We employ specialist teams to manage and assure the operation of this framework. We pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws aren’t clear, and it can take many years to agree an outcome with a tax authority or through litigation. Nevertheless, we always seek to deal with tax authorities in an open and constructive manner, engaging specialist external advice where required.

Brexit

Once the Government decided to hold a referendum on the UK’s membership of the European Union, we realised this would create potential uncertainty for BT. The risk of this increased after Britain voted to leave the EU.

How we managed the risk

We decided early on that we needed to understand what risks and opportunities Brexit might create for us, so ahead of the vote we set up a programme bringing together functions across the business.

The results of this work were reported to the Operating Committee. We then ramped up the activity after the vote, forming a steering group chaired by the group finance director. This continues to meet on a regular basis, overseeing work that is being done by our various sub-projects. These are looking at areas such as the tax, people, procurement, systems and commercial impacts of Brexit. We’ve also offered our views to Government on related policy areas, including responding to Parliamentary inquiries.

The result, and what we learnt

We had trialled similar approaches during previous events such as the Eurozone crisis and the Scottish independence referendum.

This experience helped us make sure that senior leaders across BT understand how geopolitical events such as Brexit can impact us. We’ve also been able to explain to Government what we believe their priorities should be for our sector when negotiating with the EU.

More broadly, we’ve recognised that we need to work together as a business to manage such risks. And we also appreciate that our customers can take confidence from us developing plans to get through uncertain times.
Security and resilience

The security and continuity of our services are critical factors in our commercial success. Our networks and systems are constantly exposed to many different threats, and our customers expect the highest standards of protection and recovery planning to minimise any impact on our services.

Cyber-attacks on our own IT systems and those of our customers are becoming more frequent and sophisticated, and we’re investing heavily to keep pace with this growing threat to steal data or equipment or damage our infrastructure. However, service interruption can result from many other sources. These include physical threats like fire, explosion, flooding, overheating, extreme cold or power failure; logical threats such as equipment failure or problems encountered with software upgrades or major changes; or disruptions in our supply chain.

Potential impact

In the event that our protective measures fail to prevent or contain a major security or continuity incident we might incur major financial loss, long-term damage to reputation and loss of market share. Regulatory sanctions, fines and contract penalties might be applied, contracts might be terminated, and costly concessions might be needed together with unplanned and rapid improvements to retain business and rebuild trust. We might also miss opportunities to grow revenue and launch new services ahead of the competition.

What’s changed over the last year?

The acquisition of EE has substantially changed our security risk, adding large volumes of bank account and credit card data which are attractive to hackers. The rapidly escalating cyber threat is recognised as a major risk faced by organisations across the world, and we’re clearly seen as a legitimate target for cyber-attacks. We’re also exposed to collateral damage from attacks on our suppliers and customers by highly motivated and well-resourced nation state actors and criminal gangs. We responded to several potentially serious cyber-attacks during the year, and attempts to compromise our systems using known hacking tools have repeatedly failed. We’ve made real progress on improving risk controls, but more needs to be done to make sure we can keep up with the growing threat. The two major data breaches announced by Yahoo in September and December 2016 both included BT mail account records dating from 2013 and 2014. Some of these accounts are still vulnerable because their owners have never changed their passwords. The customers affected were quickly advised to reset their passwords, and forced resetting of passwords will be applied where necessary.

Following the impacts of the winter storms of 2016/17, and the publication of the UK National Flood Resilience Review, it’s clear that the risk of extreme weather events is increasing. In response, our flood preparedness programme has seen major enhancements in our defence and response capabilities.

How we’re mitigating the risks

We’re investing in improvements across the full range of technology, processes and people for both security and continuity risks.

Our cyber defence programme is focused on segmenting our IT estate to enhance access control and limit the spread of attacks. We’ve improved our strategic defences against Denial of Service (DoS) attacks in order to limit the disruption from high volumes of malicious traffic and from slower, more sophisticated attacks that mimic legitimate data flow. We’ve deployed more scanning, monitoring and logging tools to identify intrusions and to detect anomalous data traffic as early as possible. We’ve also invested in the development of cyber security skills that are deployed around the clock to apply threat intelligence to our defences and manage live incidents.

We’ve completely revised the frequency and scope of our vulnerability testing using a risk-based approach to setting priorities, and we’ve increased resources for proactive penetration testing and ethical hacking. We’re adopting a more rigorous approach to auditing our suppliers’ security and are increasingly asking suppliers to substantiate their responses with evidence of compliance with our security policies and contract terms.

Our flood preparedness programme has seen us double the size of our Emergency Response Team and their associated capabilities. We’ve enhanced our extreme weather monitoring processes and our ability to map warnings to specific assets. This, together with the production of specific flood defence plans for our critical sites, allows us to respond more rapidly and appropriately to fast-changing weather-related risks. We’ve also enhanced our ability to provide emergency communications support to local communities should these become isolated following storm damage. We continue to invest in resilience and recovery capabilities in response to a range of threats.

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 achieving agreed milestones owing to factors either in or out of our control; changes in customers’ needs, 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’s a substantial performance risk in some of these highly-complex contracts.

**Potential impact**
If we don’t manage to 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 fulfilling 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.

One of our largest and highest risk contracts is the delivery of a key element of the UK Emergency Services Network (ESN) on our EE mobile network. The complexities described above all apply to this programme. So far delivery has gone well, but there are still plenty of challenging parts of the programme to be delivered including aspects of the contract that are not in our control.

We’re still delivering contracts with local authorities through regional fibre deployment programmes, including the Broadband Delivery UK programme (BDUK). As with our other major contracts, if we fail 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 re-invest 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?**
We’ve acquired EE and with it the Emergency Services Network (ESN) programme, which is a high-profile contract delivered with several partners and managed by the Home Office. To date we’ve delivered on our commitments but it’s still a high-risk programme and is being managed as such.

Tough market conditions continue and the impact of the UK voting to leave the EU has meant some customer programmes have been delayed, which has had an impact on the business. Customers are requiring more flexibility in their contracts.

The majority of our first phase of BDUK contracts have now completed deployment, with the remainder closing in 2017/18. We’re now mid-delivery of the second phase of contracts (SEP). Whilst these contracts are smaller in scale and coverage, the deployment challenges are significantly greater in terms of the geography encountered as we reach further into the final 5%.

While our broadband contracts and ESN 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 the result to senior management. A separate, dedicated team provides assurance for our BDUK and ESN 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.

In fact we’ve invested in risk training, and assess the management of our contracts against a best practice framework we’ve developed based on our knowledge of running and managing major programmes.

**Contract management and automation**
Our ability to successfully manage major contracts is critical to maintaining performance and providing a great customer experience.

**How we managed the risk**
How we handle both contractual obligations and risk is key to success. To help our management community we’ve introduced a ‘contract lifecycle management’ system. This will centralise the storage, access and retention of all contract documents.

**The result, and what we learnt**
Our ‘contract lifecycle management’ system promises many benefits. Once it’s rolled out across the business, it’ll help us understand our contractual obligations and make sure every contract has a dedicated owner. It’ll also help with allocating work and by providing an online risk register, make sure risks are understood and agreed across the business. Finally, it should make it simpler to develop our expertise as we adopt a single way of working across contract management.
Our principal risks continued
Operational risks continued

Supply chain

We operate in a global supply market, with a variety of supply chains ranging from simple to very complex. Guaranteeing their integrity and continuity is critical to our operations.

Global markets expose us to global risks, including different standards in labour, environmental and climate change practices. We weigh up the impact and likelihood of external market forces on our suppliers’ ability to support us. A global supply market means better sourcing opportunities, but brings challenges if suppliers become more geographically and culturally remote from our customers – or if governments put barriers in the way of doing business to protect national economic interests.

Our dealings with suppliers – from the way we choose them, to the contracts we sign and how we pay them – follow our trading and ethical policies. For more detail, see Our suppliers on page 37.

Impact
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 dedicate time to assessing emerging geo-political threats and the impact they could have on our supply chain. These include the impacts of the UK leaving the EU; economic problems in countries like Venezuela; increasing regulation over the privacy of personal data; and the growing threat of cyber-attacks on networked ICT systems.

We note the continuing trend of mergers and acquisitions in some of the global markets in which we source products and services. It highlights the risk of us becoming too dependent on single or monopolistic suppliers – particularly those less constrained by regulation and who might charge us more than their domestic customers.

How we’re mitigating the risks
We have a few really critical suppliers. We keep a close watch 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 such events.

We make sure we exercise the right due diligence when it comes to introducing new suppliers and continuing to do business with existing ones. That includes checks on company finances, business systems, accreditations, media reputation and ethical practices.

We manage our top suppliers according to the contracts they’ve signed. We work with them to find better ways of working, reducing our exposure to risks around poor supplier practices in the process.

The increasing focus on human rights, following legislation like the Modern Slavery Act 2015, means that we must keep examining the potential risk of both modern slavery and human trafficking in our supply chain.

We must also ensure that our products are free of components that could be sourced from areas of armed conflict, or sourced using methods that are unsustainable or ethically questionable.

Employee engagement

Our people are a vital part of our ambition to deliver a positive customer experience and sustainable, profitable revenue growth. Our people strategy supports this ambition by creating an environment where people can thrive as part of a dynamic business. Great employee engagement is necessary to ensure we meet our strategic aims.

Potential impact
If we fail to recruit, retain and engage our workforce it could impact our ability to deliver a great customer experience and continue to grow the business. Furthermore, a failure to develop and retain talent could result in a greater need for external recruitment, which would add cost to the business. Poor engagement also raises the risk of general industrial unrest and action.

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Our viability statement

Assessment of prospects
An understanding of the group’s strategy and business model is central to assessing its prospects, and details can be found on pages 16 and 22.

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

Our strategy of delivering great customer experience, transforming our cost base and investing for growth is 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, and is reviewed by the Board during the year. 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.

Beyond our core three-year planning horizon, the group also makes investments that have business cases covering a longer time period, such as our network investments. Significant capital expenditure investment cases are approved by the Design Council, a pan-BT investment board and, where appropriate, the Operating Committee and the Board after taking into account longer-term risks and opportunities such as the economy, technology and regulation.

Finally, our business and financial planning also takes into account our longer-term obligations, including the funding of our defined benefit pension schemes.

Viability statement
In accordance with provision C.2.2 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 2020. The Board believes this is an appropriate timeframe as it aligns with the group’s financial planning processes. In addition, a number of our principal risks share a natural three-yearly cycle; for example the BTPS funding valuation and Ofcom’s market review cycle.

In support of this statement we have stress tested our forecast cash flows by assessing, through a probabilistic analysis, the range of potential combined impacts 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 existing projected cash flows and cash management activities provide us with a buffer against the impact of our most likely 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 ensure additional liquidity. These actions could include, for example, sale of assets, limiting or delaying discretionary capital expenditure and marketing activities, restricting share buyback programmes and reducing or ceasing dividend payments.

In our viability assessment we have 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 have only taken into account the control activities that we have in place today. We have not factored in any of the extensive future mitigation activity that we are undertaking to address these risks, thereby assuming such activity proves ineffective. Whilst we do not expect this to happen, we have adopted these pessimistic assumptions to add greater stress to our viability testing.

We have also assumed that, should the need arise, we would have both the ability to renew existing debt facilities which mature over the three-year period and be able to raise new debt.

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.
Lines of business

Consumer

We’re the largest provider of consumer fixed-line voice and broadband services in the UK. We’re also the second-largest pay-TV sports broadcaster in the UK and a leading innovator in broadcasting technology.

Consumer and Plusnet (our award-winning second brand) connect our customers to information, entertainment, friends and family, both at home and on the move.

We buy access to fixed-line and broadband infrastructure from Openreach, and we use EE’s mobile network to provide mobile phone services.

Consumer, Plusnet and EE all provide home phone, broadband, TV and mobile services.

Consumer brands

<table>
<thead>
<tr>
<th>Home phone</th>
<th>Broadband</th>
<th>BT TV</th>
<th>BT Sport</th>
<th>Mobile</th>
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</thead>
<tbody>
<tr>
<td>Home phone</td>
<td>Home phone</td>
<td>YouView TV on Plusnet</td>
<td>BT Sport</td>
<td>Mobile</td>
</tr>
<tr>
<td>Broadband</td>
<td>Broadband</td>
<td>EE TV</td>
<td>BT Sport app</td>
<td>Mobile</td>
</tr>
</tbody>
</table>

Our Consumer line of business offers products and services from both BT and Plusnet. Subscriber numbers and market share data for home phone, retail broadband and pay-TV are reported at group level and can be found in this section. Figures for mobile (also reported at group level) can be found in the EE section on page 62.

Consumer sells a range of devices including telephones, baby monitors and wi-fi extenders via high street retailers, the online BT Shop and on our website, BT.com. We work closely with our suppliers to make our products and business operations as sustainable as possible, from the first link in the supply chain through to the end customer.

We also sell services to commercial premises, such as pubs and hotels, so they can access BT Sport or BT Wi-fi.

We employ over 11,000 full-time equivalent employees. Around 10,000 of these directly help our customers through our contact centres.

Markets and customers

Our broadband (copper and fibre) products are available to over 99% of UK premises, and our home phone and mobile services are available to all. Everyone who has a BT internet connection with a sufficient broadband speed can sign up to watch BT TV.

The UK consumer telecoms market is highly competitive. In December 2016, Ofcom found that UK prices for telecoms and TV services compared well to international benchmarks. In 2016 the UK ranked second among six comparator countries (France, Germany, Italy, Spain, UK and the US) for a combination of standalone, bundled and ‘lowest-available’ prices.

Within the UK market, our three consumer brands mean we’re well placed to compete with the likes of Sky, Virgin Media, TalkTalk and Vodafone.

BT retail market share

Source: BT and Ofcom data.

Home phone

According to Ofcom, the number of home phone lines in the UK is 26.4m. The number of minutes of residential fixed line calls made in 2016 fell by 12.8% year on year to 43.5bn, as people increasingly prefer to use mobile phones, voice over IP or instant messaging services instead of landlines.

Broadband

There were 25.3m fixed broadband (residential and SME) connections in 2016, an increase of 2.2% from the previous year. Of these, 46% were fibre broadband connections.

TV and content

There are approximately 18m pay-TV subscriptions in the UK.

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a Home phone includes Consumer and EE analogue and ISDN channels (WLR), including customers in Northern Ireland and Plusnet.
b Retail broadband – Consumer (including Plusnet and Northern Ireland), EE, B&Ps, and broadband lines sold by Global Services.
c TV refers to the total number of customers either with a BT Vision, YouView or EE TV box registered and enabled to receive video on demand including YouView from Plusnet.
Subscription video on demand (SVoD) content providers such as Netflix and Amazon Prime are becoming increasingly popular, although this is largely as a complement to traditional pay-TV rather than as a replacement.

Data published by Ofcom found that 75% of SVoD users also had a subscription to a pay-TV service.

Mobile
We describe the UK mobile market, including BT’s overall position, in the EE section of this report starting on page 62.

Products and services
One size rarely fits all. That’s why we sell home phone, broadband, TV and mobile services to our customers in a variety of packages.

Home phone
We sell a range of home phone products and calling plans which let our customers choose the right service for their particular household needs. We offer unlimited call packages and add-ons such as discounted international calls and calls to mobiles. 82% of all call minutes are made to UK geographic numbers (ie excluding 03, 0845 and 0870 numbers). Of these, 89% are made without an additional charge as they form part of inclusive calling plans.

Consumer home phone services include:
- **BT Basic** – discounted line rental and inclusive calls to recipients of certain state benefits. We’re the only company to offer this sort of service in the UK. This year, we improved our BT Basic package by including more types of calls to the services and adding a cap on spend;
- **BT Call Protect** – a new, free service, available to all customers, that diverts nuisance calls to a junk voicemail box; and
- **Home Phone Saver 2020** – a telephone-only package offering line rental, unlimited calls and calling features. The price is guaranteed until 2020.

Plusnet and EE also offer a home phone service with a variety of different calling plans.

Broadband
We offer an ADSL broadband service, delivered over copper lines; and BT Infinity, our superfast broadband service which uses fibre to deliver higher speeds and a more reliable service.

Examples of our broadband services include BT Broadband Unlimited, which has speeds of up to 17Mbps, and our premium package, BT Infinity 2 Unlimited, which uses fibre broadband for speeds of up to 76Mbps. Where available, fibre-to-the-premises packages offer download speeds of up to 300Mbps.

In July 2016 we launched the BT Smart Hub. Boasting the UK’s most powerful wi-fi signal versus major broadband providers, it uses the latest technology to help customers enjoy wi-fi in more places in the home.

**BT Smart Hub**

Our broadband packages also include the following products:
- **BT Wi-fi** – free, unlimited wi-fi access at around 5.6m UK hotspots;
- **BT Cloud** – secure online and on-the-go access to data and photos; and
- **BT Web Protect** – a suite of security services which help to keep our customers and their families safe online.

We offer targeted support to vulnerable customers and work with industry groups, such as Internet Matters, to promote internet safety.

Plusnet broadband is sold in three packages – unlimited, with a download speed of up to 17Mbps; and two fibre broadband packages, fibre unlimited, with download speeds of up to 38Mbps, and unlimited fibre extra, with download speeds of up to 76Mbps.

EE broadband offers three similar products.
Lines of business continued
Consumer continued

TV
BT TV is available exclusively to our broadband customers. TV content is delivered via a YouView box, which includes content from a number of third parties, including Netflix. Our ambition is to provide a selection of pay content at an attractive price.

BT TV comes in three different packages:

Starter + BT Sport
Over 70 Freeview channels, plus BT Sport channels; AMC; BoxNation and access to BT Store. This package comes with a YouView box which lets people pause and rewind live TV.

Entertainment Plus
Includes 110 channels, as well as a YouView+ box, which lets customers record up to 300 hours of programmes, pause and rewind live TV, and access seven days’ worth of catch-up TV. It also includes access to the BT TV app.

Total Entertainment
Offers 141 channels, including 21 in HD. Also includes additional recording space on the set-top box; BT Sport in 4K Ultra HD and BT Kids TV.

Entertainment Plus and Total Entertainment are only available to BT Infinity broadband customers.

YouView TV on Plusnet is available to Plusnet’s fibre customers. It includes over 70 Freeview channels, plus BT Sport 1, as well as pay-TV channels.

EE TV provides more than 70 Freeview channels, as well as pay-TV channels. The EE TV app works seamlessly on up to four devices.

BT Sport
There are four main live BT Sport channels.

The BT Sport channels are available on BT TV, the BT Sport app (to BT and EE customers), btspor.com, Sky, TalkTalk and Virgin Media TV customers can also purchase a BT Sport subscription. There's a discount on BT Sport for existing broadband customers, and an even bigger discount for customers who take broadband and BT TV.

BT Sport 4K UHD is the UK’s first Ultra HD TV channel. It has four times the detail of HD and is available exclusively to BT TV Total Entertainment customers with BT Infinity broadband.

BT Sport is the exclusive live broadcaster of the UEFA Champions League and UEFA Europa League in the UK, with the rights secured until the end of the 2020/21 season. We also broadcast games from the Premier League and the FA Cup. As well as football, BT Sport offers coverage of a range of different sports including Aviva Premiership Rugby, MotoGP, Cricket Australia, WTA tennis and most recently, boxing. This year, we broadcast over 11,000 hours of live sport.

Innovation is a key part of our strategy at BT Sport. Over the course of this year, we’ve run trials broadcasting content using virtual reality. We’ve also launched Dolby Atmos sound on our Ultra HD channel. Our BT Sport app and Ultra HD channel have won awards for innovation.

A good example of innovation in action was our coverage of the 2016 UEFA Champions League final. We made this the most social sports broadcast ever by live-streaming the match on BT Sport’s YouTube channel and breaking new ground across social media.

BT Mobile
BT Mobile is available as both SIM-only and a range of service plans with a choice of market-leading handsets. BT broadband customers get a £5/month discount on BT Mobile service plans. This year we launched BT Family SIM – a service plan which lets BT Mobile customers purchase two or more SIM cards at a discounted price.

Plusnet entered the quad-play market in November 2016 with the launch of Plusnet Mobile.

Performance in the year – strategic
Customer experience remains our top priority.

Delivering great customer experience
Last year we made an important investment in customer care. This year we’ve made real progress in this area. Even so, we continue to focus on making improvements.

We’ve added more than 2,200 additional FTE call centre roles in the UK and Ireland. We’ve also made important gains by making sure we’re easy to deal with, a key part of our Net Promoter Score.

Investing in online support
1.4m customers have the My BT app and can use it to get in touch with us, while the percentage of online contacts that reach us via chat has grown from 6% in 2015/16 to 20% today.

Better systems and tools for our agents
We’re in the process of deploying a new system to our frontline agents so they can help customers even more quickly and accurately. This system is now live for more than 2,500 agents.

New diagnostics to help us detect and resolve faults
Diagnostics are still progressing, while on-time repair performance improved by six percentage points over the course of the year. On average, our customers now have landline faults fixed 24 hours quicker than last year.

Simplifying our organisation
We’ve broadened the skillsets of our agents and empowered them to take ownership of customers’ needs.

Even so, work continues in this area
Although a lot of progress has been made in the year on customer experience, the criticism we’ve received from both the media and the regulatory authorities over the year reinforces the need to redouble our efforts. One specific issue we need to address is the growing number of customers contacting us to discuss their monthly package price. The increasing number of contacts offset the progress made in other areas (such as fault resolution and providing services on time) and lowered the Right First Time score achieved by Consumer.
Investing for growth
This year we continued to focus on sustainable long-term growth, making several investments for the future. The table below summarises the progress made on the top priorities we set out in last year’s report.

Review of last year’s priorities

<table>
<thead>
<tr>
<th>WHAT WE SAID</th>
<th>WHAT WE DID</th>
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<tbody>
<tr>
<td>We said we’d transform customer services.</td>
<td>We’ve invested in systems and process to improve customer experience, and we’ve employed more people to make sure that by spring of 2017, 90% of customer calls are answered in the UK or Ireland. We’re on track to meet this target, with over 86% of calls now answered in the UK and Ireland. We’ve also made it easier for customers to interact with us online. This year we provided over 800,000 hours of training to our contact centre agents.</td>
</tr>
<tr>
<td>We said we’d launch our new Premier League rights and Australian cricket on BT Sport.</td>
<td>This football season we aired 42 Premier League matches and 130 live games from the UEFA Champions League. We also broadcast 16 international Australian cricket games exclusively in the UK.</td>
</tr>
<tr>
<td>We said we’d trial and launch ultrafast broadband using Openreach G.fast products.</td>
<td>Following successful trials of G.fast-powered ultrafast broadband, with over 300 customers already connected across two locations in the UK (Gillingham and Cherry Hinton), we’re extending to another 15 sites in our plan prior to our launch.</td>
</tr>
<tr>
<td>We said we’d launch mobile handsets to create new market opportunities and synergies with EE.</td>
<td>We launched handsets with BT Mobile and created synergies with EE by consolidating suppliers. We also launched BT Family SIM. In November 2016, we launched Plusnet Mobile.</td>
</tr>
<tr>
<td>We said we’d introduce a new YouView user interface.</td>
<td>In February 2017 we started to roll out the new BT TV YouView user interface to our customers, a process that’s now complete.</td>
</tr>
<tr>
<td>We said we’d launch our new breakthrough service to help home phone customers avoid nuisance calls.</td>
<td>Known as BT Call Protect, we launched this innovative new service in January 2017. We’re making good progress towards this aspiration, but we’re not there yet.</td>
</tr>
</tbody>
</table>

Transforming our costs
Last year our costs went up by 10%, reflecting both our revenue growth and our investment in the mobile market and customer experience.

To partly offset this we cut costs by:
- consolidating suppliers shared by both Consumer and EE;
- encouraging customers to adopt a self-service approach – more than 1.4m of them now have the My BT app; and
- finding production and insourcing efficiencies in our TV business.

Performance in the year – operating
We won several awards for our products and services over the course of the last year.

<table>
<thead>
<tr>
<th>Organisation/Publication</th>
<th>Award</th>
<th>BT product/service</th>
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<tbody>
<tr>
<td>Mobile Industry Awards</td>
<td>Hottest New MVNO</td>
<td>BT Mobile</td>
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<tr>
<td>PC Pro</td>
<td>Recommended</td>
<td>BT Smart Hub</td>
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<tr>
<td>Expert Reviews</td>
<td>Recommended</td>
<td>BT Smart Hub</td>
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<tr>
<td>Tech Advisor</td>
<td>Recommended</td>
<td>BT Smart Hub</td>
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<td>Alphr</td>
<td>Recommended</td>
<td>BT Smart Hub</td>
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<tr>
<td>Expert Reviews</td>
<td>Recommended</td>
<td>BT Halo phone</td>
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<tr>
<td>Mobile Choice Awards</td>
<td>Best Network Deal Under £25</td>
<td>BT Mobile</td>
</tr>
<tr>
<td>Mother &amp; Baby</td>
<td>Silver Award</td>
<td>BT 7500 Baby Monitor</td>
</tr>
<tr>
<td>Expert Reviews</td>
<td>Best Buy</td>
<td>Whole Home Wi-Fi</td>
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<tr>
<td>Alphr</td>
<td>Recommended</td>
<td>Whole Home Wi-Fi</td>
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<tr>
<td>uSwitch</td>
<td>Most Popular Broadband Provider</td>
<td>BT Broadband</td>
</tr>
<tr>
<td>Broadband World Forum</td>
<td>Best TV or media innovation</td>
<td>BT Sport App</td>
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<tr>
<td>TV Connect Awards</td>
<td>Best Content Discovery Service</td>
<td>BT TV YouView interface</td>
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<tr>
<td>The Connies</td>
<td>Contribution to User Experience</td>
<td>YouView on BT TV</td>
</tr>
<tr>
<td>The Connies</td>
<td>Best TV/Video Service Update (Silver)</td>
<td>YouView on BT TV</td>
</tr>
<tr>
<td>Sports Technology Awards</td>
<td>Most innovative live event</td>
<td>BT Sport</td>
</tr>
<tr>
<td>D&amp;AD</td>
<td>Wood pencil</td>
<td>Ultra HD</td>
</tr>
</tbody>
</table>
Lines of business continued
Consumer continued

Plusnet also won several awards:

<table>
<thead>
<tr>
<th>Organisation/publication</th>
<th>Award</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadband Genie Survey Awards 2017</td>
<td>Best broadband provider</td>
</tr>
<tr>
<td></td>
<td>Best customer care</td>
</tr>
<tr>
<td></td>
<td>Most recommended provider</td>
</tr>
<tr>
<td></td>
<td>Best technical support</td>
</tr>
<tr>
<td></td>
<td>Most trustworthy provider</td>
</tr>
<tr>
<td></td>
<td>Best value provider</td>
</tr>
<tr>
<td>uSwitch Broadband and Mobile Awards 2017</td>
<td>Broadband provider of the year</td>
</tr>
<tr>
<td></td>
<td>Best provider customer service</td>
</tr>
<tr>
<td></td>
<td>Best value broadband provider</td>
</tr>
<tr>
<td>Cable.co.uk Awards 2016</td>
<td>Best broadband provider</td>
</tr>
<tr>
<td></td>
<td>Best reliability</td>
</tr>
<tr>
<td></td>
<td>Best customer service</td>
</tr>
<tr>
<td></td>
<td>Best value</td>
</tr>
</tbody>
</table>

Home phone, broadband and TV are reported on a group-wide basis in the section below. Mobile performance is also reported on a group-wide basis and can be found in the EE section on page 62.

**Home phone**
As of 31 March 2017, BT Group had a combined total of 10.3m home phone customers. This represents a market share of 39%.

**Broadband**
This year we maintained our position as the UK’s largest provider of retail fixed broadband services with 9.3m customers, representing a market share of 37%.

Over half of our retail broadband customers have a fibre broadband connection and benefit from faster internet speeds than ever before.

**TV**
We have 1.7m TV customers, divided between BT TV, YouView TV on Plusnet and EE TV. 29,800 commercial premises have a BT Sport subscription, up from 27,000 last year.

BT Sport’s average daily viewing figures went up by 12% in 2016. During this time, our BT Sport app was downloaded more than 2.2m times.
Performance in the year – financial
In 2016/17, our revenue went up by 7%, with a particularly strong growth across broadband, TV and BT Mobile. EBITDA decreased 4%.

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2017 £m</th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>4,934</td>
<td>4,608</td>
<td>4,293</td>
</tr>
<tr>
<td>Operating costs</td>
<td>3,922</td>
<td>3,553</td>
<td>3,249</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,012</td>
<td>1,055</td>
<td>1,044</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>209</td>
<td>207</td>
<td>218</td>
</tr>
<tr>
<td>Operating profit</td>
<td>803</td>
<td>848</td>
<td>826</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>237</td>
<td>207</td>
<td>207</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>709</td>
<td>781</td>
<td>828</td>
</tr>
</tbody>
</table>

Broadband and TV revenue increased by 13% (2015/16: 17%), reflecting the growth in our customer bases. Our calls and lines revenue increased by 4% (2015/16: 2%), in part reflecting the growth of our BT Mobile business. Other revenue decreased by 6% (2015/16: 8%) reflecting the declining fixed handset market. Consumer 12-month rolling ARPU increased 8% to £39.9 per month driven by broadband, BT Sport and BT Mobile. We’ve also seen growth of 3% in the number of revenue generating units per customer, which is now at 1.95.

Operating costs increased by 10% (2015/16: 9%) as a result of investment in our new mobile handset business and increases in sports rights costs in relation to our UEFA rights and our new Premier League contract, which commenced in August 2016. Our cost base also went up because of our investment in improving customer experience and contact centre onshoring.

Our EBITDA decreased 4% (2015/16: increased 1%) over the year, with a strong performance across voice, broadband and BT Sport more than offset by our investment in contact centre onshoring, increases in sports rights costs and our investment in mobile handsets.

Capital expenditure increased by 14% (2015/16: flat).

Priorities for the year ahead
Over the next 12 months we’ll carry on investing for the future and doing everything possible to ensure a great customer experience and sustainable business growth.

Our top priorities for 2017/18 are:

**Keeping the household connected**
- we’ll carry on moving customers from copper to fibre broadband and grow our base through customer acquisitions;
- we’ll also launch an ultrafast broadband product in the form of G.fast and, where possible, via fibre-to-the-premises; and
- we’ll carry on promoting our BT Mobile proposition to give existing BT customers more for their money.

**Enhance sport and TV content**
- exclusive sport is a key point of differentiation, giving potential customers an excellent reason to choose BT; and
- at the same time we’ll improve the TV viewing experience for our customers.

**Transform customer experience**
- we’ll complete the deployment of our new frontline systems and operating structure to simplify the way we work; and
- we’ll make further investments to cut the time it takes to get through to a contact centre agent.

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* Revenue generating units are voice lines, broadband, TV and mobile.
At BT we report mobile customer numbers on a group-wide basis, including those from our other lines of business. We have over 30m connections, 18.6m of which are 4G. In EE, new mobile customers join 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 around 570 shops, our website and contact centres, and through third parties, such as Dixons Carphone. To improve customer experience, all EE customer service calls have been handled in the UK and Ireland since the end of 2016.

We have 9,000 people, with 67% directly helping our customers through our shops and contact centres. And we were named the third best employer in the Sunday Times Best Big Companies to Work For 2017 awards, up from seventh in 2016.

Starting in September 2017 we’ll support the Emergency Services Network contract by providing a resilient 4G network for 300,000 emergency services workers.

Our mobile network has been independently recognised as the fastest network by Ofcom in its Smartphone Cities 2016 report, and best overall network by RootMetrics in its report for the second half of 2016.

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.

Markets and customers

With four mobile network operators and numerous mobile virtual network operators (MVNOs), the UK mobile market is very competitive. Of the UK’s 91m mobile connections, 87% are consumer and 13% business.

Our main competitors are O2, Vodafone, Three, Tesco Mobile, Virgin Media and TalkTalk. Sky also entered the market in January 2017 as an MVNO. Competition for customers is further increased by third-party distributors selling mobile services on behalf of mobile operators, from high street shops and online.

Around 93% of adults in the UK use a mobile phone. Over 70% of adults in the UK use a smartphone, and 59% of homes also have a tablet. Smartphones are now the most widely-used device by UK adults for accessing the internet. Consequently, total mobile data use went up 64% in 2015. According to Ofcom, 63% of mobile connections are on postpaid tariffs.

By September 2016, total UK mobile call volumes were steady at around 37bn minutes per quarter. SMS and MMS messages were down 4% to an average of 24bn messages per quarter. Mobile telephony services generated £3.9bn in retail revenue in the quarter to September 2016, up 1% compared to last year.

According to Akamai’s latest State of the Internet report, the UK has the fastest mobile connection speed of the 61 countries it surveyed around the world.

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

– rapid adoption of 4G devices as 4G networks are deployed. That means nearly all handsets sold are 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;
– blurring of postpaid and prepaid customer types with rolling postpaid tariffs and auto-renewing prepaid bundles;
– popularity of SIM-only tariffs. Smartphones are evolving at a slower pace so people are keeping their mobile phones for longer; and
– regulatory pressure on the prices charged to customers and other telecoms companies.

BT has a 29% share of the UK mobile market, measured on a subscriber basis.

| Mobile subscriber UK market share by operator |
| At 31 December 2016 |
| 29% BT including EE |
| 1% TalkTalk |
| 4% Virgin Mobile |
| 6% Tesco Mobile |
| 11% Three |
| 22% Vodafone |
| 27% O2 |

Source: EE and market data.

The consumer fixed line voice and broadband market is discussed in the Consumer section of this report on page 56.
Products and services
We provide mobile services in the UK, now covering up to 99% of the population with 2G, 98% with 3G and over 99% with 4G, or 80% on a geographic basis. We also sell broadband services, fixed-voice and a TV service. The wholesale services previously provided by EE are now managed by Wholesale and Ventures.

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:

- **4GEE Essentials** plans give access to 4G speeds of up to 20Mbps, unlimited texts and tiered bundles of voice and data use;
- **4GEE** plans offer unlimited UK minutes and texts and 4G speeds of up to 60Mbps; and
- **4GEE Max** plans combine the largest data bundles, inclusive access to the BT Sport App and ‘roam like home’ voice, text and data usage when abroad in the EU.

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 seven to 30-day periods; and
- **Data packs** ranging from 100MB to 4GB over seven to 30-day periods.

We also operate a loyalty programme where customers get extra data added to their packs in return for staying with us and topping up.

Devices
We offer a wide range of 4G mobile phones, tablets, connected devices and mobile broadband devices from leading manufacturers including Apple, Samsung and Google. Customers may also choose to use their own device and then connect via a SIM-only plan.

Broadband and TV
We sell fixed-voice, broadband (including superfast fibre broadband) and TV services. To reward loyalty, 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, as well as 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.

Emergency Services Network
In December 2015 EE was awarded the network part of the Emergency Services Network (ESN).

Some of the applications that our 4G network will enable include:

- an ambulance crew sending vital data to a hospital to help staff prepare for a patient’s arrival;
- a policeman recording an arrest on a body-worn camera and live-streaming to nearby officers for support; and
- a fire and rescue crew assessing a burning building based on live helicopter camera footage and digital blueprints viewable via tablets.

To deliver the ESN service we’re:

- building a new, dedicated core network;
- constructing up to 500 new sites to expand coverage;
- switching on 800MHz on more than 3,500 sites to improve outdoor and indoor coverage;
- using new 4G voice services, such as ‘push to talk’;
- providing a fleet of Rapid Response Vehicles to ensure maximum service availability; and
- using satellite backhaul for remote sites.
**Lines of business continued**

**EE continued**

### Performance in the year – strategic

We’ve grown financially, improved customer experience and extended our mobile network while integrating with the group.

#### Delivering great customer experience

Improving customer service is one of our top priorities. While we’ve made strong progress on mobile services, we believe there’s always more we can do, particularly for our fixed broadband customers.

During the year we worked on projects across four key areas:
- **Call centres** – all EE customer service calls are now handled in UK and Ireland contact centres;
- **Self-service** – we now have 9m customers using My EE;
- **Shops** – we’re improving our service; and
- **IT** – we’re enhancing our customer-facing IT systems.

We’ve made real improvements across the business in the way we design, build and communicate our products and services to our customers. We’ve improved the way we engage with them, whether that’s by phone, in store or online, and upgraded the information and tools our advisers use to help them with customer queries.

Together these steps have helped cut the number of customer calls to our contact centres, and cut the number of complaints our postpay customers make to Ofcom by 43%. At the same time our postpaid net promoter score has improved, with many more promoters than detractors.

#### Investing for growth

We’ve built the UK’s best mobile network and we’re continuing to invest to keep our number one position.

We’ve extended 4G geographic coverage to 80% and plan to increase this to 95% by the end of December 2020. As part of the ESN contract we’ll also increase the resilience of the network, benefiting all of our customers. We’ve also enabled new features like ‘4G calling’ (Voice Over LTE) and some parts of our network now let customers achieve download speeds of up to 360Mbps.

#### Transforming our costs

Since becoming part of BT we’ve started a cost reduction programme to deliver planned synergies and identify other savings.

We delivered savings this year by:
- improving customer self-service to cut the volume of calls to our contact centres;
- answering all EE customer calls in the UK and Ireland, rather than overseas, to resolve more queries first time and cut subsequent calls;
- improving efficiency within our shops, through better staff planning and reduced facilities costs; and
- reducing the number of head office employees.

### Performance in the year – operating

We report mobile customer numbers on a total BT Group basis, including those from other lines of business.

At 31 March 2017 we had over 30m connections. Here’s how they break down:

<table>
<thead>
<tr>
<th>Customer base by type</th>
<th>000</th>
</tr>
</thead>
<tbody>
<tr>
<td>M2M</td>
<td>2,439</td>
</tr>
<tr>
<td>MVNO</td>
<td>3,760</td>
</tr>
<tr>
<td>Prepay</td>
<td>6,921</td>
</tr>
<tr>
<td>Postpay</td>
<td>16,916</td>
</tr>
<tr>
<td>of which 4G</td>
<td>18,628</td>
</tr>
</tbody>
</table>

Our postpay base grew by 803,000 to 16.9m, supported by growth in the EE and BT brands. The prepay base continued to decline in line with industry trends, partly as a result of customers moving to postpay.

The machine-to-machine base grew 78,000 to 2.4m as the Internet of Things market starts to grow.

Our base of MVNO customers stood at 3.8m, up 40,000, as our MVNO partners continued to do well in the mobile market.

<table>
<thead>
<tr>
<th>Customer base movements</th>
<th>000</th>
</tr>
</thead>
<tbody>
<tr>
<td>As at 1 April 2016</td>
<td>30,445</td>
</tr>
<tr>
<td>Prepay</td>
<td>803</td>
</tr>
<tr>
<td>Postpay</td>
<td>1,330</td>
</tr>
<tr>
<td>MVNO</td>
<td>40</td>
</tr>
<tr>
<td>PM</td>
<td>78</td>
</tr>
<tr>
<td>As at 31 March 2017</td>
<td>30,036</td>
</tr>
</tbody>
</table>
In last year’s report, we set out our top priorities for this year. In the table below we summarise the progress we’ve made.

Review of last year’s priorities

<table>
<thead>
<tr>
<th>WHAT WE SAID</th>
<th>WHAT WE DID</th>
</tr>
</thead>
<tbody>
<tr>
<td>We said we’d improve the customer experience.</td>
<td>We now answer 100% of EE calls in UK and Ireland contact centres.</td>
</tr>
<tr>
<td></td>
<td>We’ve cut the rate of postpay complaints to Ofcom by 43%.</td>
</tr>
<tr>
<td>We said we’d extend 4G coverage and retain our position as the UK’s best quality mobile network.</td>
<td>We’ve now extended 4G geographic coverage to 80% of the UK. EE is still ranked as the best UK mobile network by RootMetrics.</td>
</tr>
<tr>
<td>We said we’d progress the build phase of the ESN contract, working closely with TSO.</td>
<td>We remain on track to deliver our part of the ESN contract by September 2017.</td>
</tr>
<tr>
<td>We said we’d launch a range of combined mobile, fixed-line and TV products.</td>
<td>We’ve refreshed the EE mobile tariffs, offered BT Sport to EE customers and trialled the sale of Consumer broadband and TV products in EE shops.</td>
</tr>
</tbody>
</table>

Performance in the year – financial
Revenue for the year was £5,090m and EBITDA was £1,156m. Underlying revenue and EBITDA adjusted for the acquisition of EE went up by 1% and 6% respectively.

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2017 £m</th>
<th>2016 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>5,090</td>
<td>841</td>
</tr>
<tr>
<td>Underlying revenue excluding transit adjusted for the acquisition of EE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating costs</td>
<td>3,934</td>
<td>668</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,156</td>
<td>173</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>780</td>
<td>146</td>
</tr>
<tr>
<td>Operating profit</td>
<td>376</td>
<td>27</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>616</td>
<td>96</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>570</td>
<td>238</td>
</tr>
</tbody>
</table>

Revenue was £5,090m which includes postpaid mobile revenue of £4,140m, prepaid mobile revenue of £402m, fixed broadband revenue of £276m and equipment sales of £272m. Our performance for the year benefited from additional revenue from our ‘more for more’ pricing strategy. Monthly mobile ARPUs for the final quarter of the year were £26.3 for post-paid customers, £4.4 for prepaid and £19.8 on a combined basis.

Operating costs were £3,934m giving EBITDA of £1,156m, a margin of 23%.

Capital expenditure was £616m. Adjusted for the acquisition of EE capital expenditure was up 22% as we extend 4G coverage and as our investment in ESN increased. Preparation for our part of the Emergency Services Network contract continued in line with agreed milestones.

Operating cash flow, which excludes interest and tax, was £570m.

Priorities for the year ahead
Over the next 12 months we’ll continue to invest in the network and further improve the customer experience.

Our top priorities for 2017/18 are:

Maintain network leadership
– we’ll further extend 4G geographic coverage to 95% of the UK by 2020.

Carry on improving customer experience
– in the medium term we aim to become the mobile network operator with the best postpaid net promoter score.

Deliver the EE part of the Emergency Services Network contract
– we’re aiming to finish building and testing by the end of September 2017.

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\(^2\) Excludes specific items, foreign exchange movements and disposals. Calculated as though EE had been part of the group from 1 April 2015.

\(^3\) Includes EE results from acquisition on 29 January 2016.

\(^4\) Includes EE’s historical financial information as though it had been part of the group from 1 April 2015, under the new organisational structure.
We're passionate about helping all our customers succeed – from large government departments, big household names and public sector organisations right through to small businesses and new start-ups.

We created our Business and Public Sector line of business on 1 April 2016 by combining three organisations into one: the original BT Business organisation, EE’s business division, and parts of Global Services’ UK corporate and public sector teams. Our 10,000 people provide local, regional and national coverage across the UK.

We now have three customer-facing units focused on providing communication solutions and IT services to help create business outcomes for our customers:

<table>
<thead>
<tr>
<th>TRADING UNIT</th>
<th>CUSTOMERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small &amp; Medium Enterprises</td>
<td>- Businesses in the UK with up to 100 employees, ranging from sole traders through to more complex organisations (including schools and colleges).</td>
</tr>
<tr>
<td>Corporate</td>
<td>- Businesses in the UK with between 100 and 1,000 employees.</td>
</tr>
<tr>
<td>Public Sector and Major Business</td>
<td>- Public sector (central and local government, health, higher education, defence).</td>
</tr>
<tr>
<td></td>
<td>- Businesses in the UK with over 1,000 employees.</td>
</tr>
<tr>
<td></td>
<td>- Multinational corporates with majority of BT business in the UK.</td>
</tr>
<tr>
<td></td>
<td>- Corporates and public sector in Northern Ireland.</td>
</tr>
<tr>
<td></td>
<td>- Corporates, public sector and wholesale customers in the Republic of Ireland.</td>
</tr>
</tbody>
</table>

**Markets and customers**
We have around 1.2m customers, including over half of the FTSE 350.

Major customers include:
- retailers like the Co-Operative Group;
- utilities like Northumbrian Water;
- public sector organisations like Norfolk County Council;
- financial organisations like eSure; and
- educational institutions like Kingston University.

The telecoms market we serve has revenue of £8bn, and we estimate the adjacent IT services market has revenue of £14.5bn. Convergence of these markets to create more integrated services is already underway, a trend we expect to accelerate.

At £10bn, the public sector market for IT and telecoms is a substantial part of our addressable market. Challenges in the public sector remain substantial as the market continues to change. For example, larger systems integration contracts are being disaggregated and replaced by smaller contracts, while the devolution agenda is increasingly shifting procurement decisions and spend to the regions.

Overall we’re focused on four main product markets: Fixed voice; Mobility; Fibre and connectivity; and Networked IT services.

**Fixed voice**
For some time the market for fixed voice services has been transitioning from traditional voice to Future / IP Voice. Market analysts such as IDC believe that IP Voice will become the dominant business voice service by 2018.

The fixed voice market is largely fragmented – as the market leader, we compete against more than 950 resellers and fixed network operators, including companies such as Azzurri, Colt Group, Daisy Group, Gamma, KCOM Group, O2 and Unicom.

**Mobility**
Mobility and mobile device usage continues to grow as a way for customers to cut costs, improve productivity and deliver a richer customer experience. This growth is taking place against a backdrop of increasing risks concerning security, privacy and compliance.

Our main competitors in this area are O2 and Vodafone. Both offer fixed products as well as mobile and are increasingly selling converged services.
Fibre and connectivity
Broadband services are still migrating to fibre in order to meet the need for faster communication speeds. We’re the largest business broadband provider in the UK.

Networking is moving from physical provision to software-based, virtual provision. It’s expanding into the wide area networking space through technologies such as Software Defined Networking (SDN). See page 71 for more details.

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.

Networked IT services
The IT services market is diverse, ranging from off-the-shelf hardware sales to large outsourced solutions.

Areas of the market experiencing growth include cloud services, hosting, infrastructure and security, all of which offer attractive opportunities for us to expand our share of the overall market.

Competition is fragmented, with providers often focused on specific customer-types, industries or technologies. Our main competitors are Computacenter, Dimension Data, CDW, Logicalis, SCC and Softcat.

Security is increasingly important for companies as they face an evolving range of cyber security threats.

Products and services
We offer a wide choice of voice, connectivity and IT-related services.

These range from standalone products and converged propositions to managed services and customised solutions. Together these meet the needs of our customer base that varies from small start-ups to large enterprises and public sector organisations.

Fixed voice
Our fixed-voice services range from calls and lines, to fully-managed office phone systems and contact centre solutions across both our traditional and IP Voice portfolio. We’ve a broad Future Voice portfolio of Cloud Unified Communications services, BT Cloud Phone and BT Cloud Voice, aimed at the full spectrum of customers we serve.

Mobility
Our mobile portfolio offers a range of handsets and tablets and a choice of voice and data tariffs.

BT One Phone is a converged proposition combining office switchboard and mobile needs into one cloud-based solution mainly delivered through the customer’s mobile phone.

Fibre and connectivity
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.

Our networking solutions are ideal for customers who want to connect offices together or connect to the internet over dedicated leased lines. Products include Ethernet, IP Virtual Private Network services, SIP trunking (which transports voice calls over IP networks), leased lines, cabling infrastructure and local area networking solutions.

Networked IT services
Our specialist IT services team provide solution design, 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.
Performance in the year – strategic
Our continued investments in our people and our portfolio has helped improve the customer experience we provide while positioning us to exploit the market move to convergence.

Delivering great customer experience
We’ve made good progress on our journey to become the market leader for customer experience.

Our Net Promoter Score has improved by 12.4 points and our Right First Time measure by 6.1%. We’re resolving complaints 11% more quickly than last year.

This year we’ve:
– followed up with 20,000 customers on specific ‘pain points’ to improve their end-to-end experience;
– launched our first Customer Experience Lab in Dundee to trial innovative customer service solutions and new ways of supporting our customers;
– invested in people with more than 200 new advisers joining our service teams, including new apprentices; and
– delivered over 30,000 hours of training to our customer service advisers to improve the customer experience.

2
Investing for growth
We’re still investing to improve and future-proof our products and services. Whatever tomorrow brings, we aim to be ready.

This year we’ve:
– enriched our Future Voice portfolio by adding new features such as portal and app enhancements;
– upgraded our Infinity Broadband portfolio to address the demand for higher speeds, offering up to 76Mbps as standard;
– improved the wi-fi performance and reliability of our Business Hub and expanded our Smart Diagnostics capability to fix issues proactively; and
– expanded our range of cloud-based services for SME customers, for example Mozy Backup, our new flexible cloud back-up solution.

3
Transforming our costs
We’ve achieved major cost synergies by integrating EE and Business and Public Sector.

The creation of Business and Public Sector gave us the opportunity to align our customer service operations more effectively. The first stage of this reorganisation brought together around 2,000 of our people into a single centre of excellence for UK and Republic of Ireland managed services.

We’ve brought around 800 engineers from across BT Group into Business and Public Sector. The result is a unified field service team focused on the provision and maintenance of equipment on customers’ premises. These changes will allow us to better serve our customers while driving efficiency and reducing costs.

Performance in the year – operating
Our order intake of £3.4bn was up 7% with the inclusion of EE orders offsetting public sector decline. During the year weaker trading in the public sector, driven by a number of contracts coming to an end, contributed to our revised group outlook.

Contracts we won or re-signed this year include:

<table>
<thead>
<tr>
<th>CUSTOMER</th>
<th>CONTRACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Mail</td>
<td>A four-year deal for wide-ranging network and ICT services, covering voice, data, and customer contact centres.</td>
</tr>
<tr>
<td>Glanbia</td>
<td>Renewal of existing WAN and managed services deal by adapting our service model to meet Glanbia’s global expansion needs (particularly in the US).</td>
</tr>
<tr>
<td>Ardgagh Group</td>
<td>Extension of existing WAN contract, addition of global SIP, completion of a Cisco PBX replacement project and deployment of BT Microsoft One Cloud.</td>
</tr>
<tr>
<td>Metropolitan Police</td>
<td>£100m networking and IT contract to deliver high-speed fixed and wireless networks, together with a range of Cloud and IT services, to help underpin its technology transformation programme.</td>
</tr>
<tr>
<td>Surrey County Council</td>
<td>Our public services network contract was extended for a further two years, growing to 500 sites.</td>
</tr>
</tbody>
</table>
In last year’s report, we set out our top priorities for this year, the table below summarises the progress we’ve made against them.

**Review of last year’s priorities**

<table>
<thead>
<tr>
<th>What we said</th>
<th>What we did</th>
</tr>
</thead>
<tbody>
<tr>
<td>We said we’d successfully launch our new Business and Public Sector organisation.</td>
<td>We integrated 1,600 people within 60 days of concluding the EE acquisition and the new organisation went live on 1 April 2016. However, lower trading in Public Sector driven by the completion of a number of large contracts led to a decline in underlying profits and a revised performance outlook.</td>
</tr>
<tr>
<td>We said we’d introduce our full portfolio of fixed, mobile and IT services to existing BT customers and those acquired with EE.</td>
<td>We’ve made our full range of propositions available across BT and EE.</td>
</tr>
<tr>
<td>We said we’d develop and integrate our portfolio of products and managed services.</td>
<td>We’ve upgraded Infinity Broadband to up to 76Mbps as standard, expanded our range of cloud-based services and introduced new features to BT Cloud Voice.</td>
</tr>
<tr>
<td>We said we’d carry on improving the customer experience we provide.</td>
<td>Our Net Promoter Score has improved by 12.4 points and our Right First Time measure by 6.1%.</td>
</tr>
</tbody>
</table>

**Performance in the year – financial**

Revenue was up 11% (2015/16: 1%) while underlying revenue excluding transit adjusted for the acquisition of EE was down 6% (2015/16: 2%). Underlying profits declined in the year, impacted by a number of large public sector contracts coming to an end. The remaining business performed well, led by good growth in mobile.

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2017 £m</th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>4,758</td>
<td>4,294</td>
<td>4,247</td>
</tr>
<tr>
<td>Underlying(^2) excluding transit adjusted for the acquisition of EE</td>
<td>(6)%</td>
<td>(2)%</td>
<td>n/a</td>
</tr>
<tr>
<td>Operating costs</td>
<td>3,230</td>
<td>2,880</td>
<td>2,867</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,528</td>
<td>1,414</td>
<td>1,380</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>352</td>
<td>284</td>
<td>235</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,176</td>
<td>1,130</td>
<td>1,145</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>275</td>
<td>153</td>
<td>160</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>1,293</td>
<td>1,101</td>
<td>1,070</td>
</tr>
</tbody>
</table>

\(^2\) Excludes specific items, foreign exchange movements and disposals and from 2016/17 is calculated as though EE had been part of the group from 1 April 2015.

SME revenue was up 37% due to growth in mobile from the addition of EE customers, while also benefiting from an increase in revenue from IP lines, partly offset by a decline in traditional switch revenue.

Corporate revenue was up 37% with growth in mobile revenue driven by EE offset by a reduction in equipment sales.

Public Sector and Major Business revenue was down 12%, with the inclusion of EE revenue more than offset by the decline in public sector revenue. Public sector still faces challenges as we have a small number of large contracts coming to an end.

Foreign exchange movements had a £52m positive impact on Republic of Ireland revenue, where underlying revenue\(^2\) excluding transit was down 2%.

Operating costs were up 12% (2015/16: 0%) and EBITDA was up 8% (2015/16: 2%) as a result of EE. Underlying EBITDA\(^3\) adjusted for the acquisition of EE was down 10%, reflecting the revenue decline in public sector. Depreciation and amortisation went up by 24% (2015/16: 21%) reflecting the impact of EE.

Capital expenditure went up by £122m (2015/16: £7m decrease) and adjusted for the acquisition of EE was up £81m. Operating cash flow went up 17% (2015/16: 3%) reflecting the higher EBITDA and the timing of working capital movements.

**Priorities for the year ahead**

Over the next 12 months we’ll continue to invest for the future to deliver a great customer experience and sustainable business growth.

Our top priorities for 2017/18 are:

- **Drive growth from greater sales coverage, acquiring and cross-selling to customers**
  - increase the average number of products sold per customer.

- **Differentiate through an integrated experience and portfolio, delivered on the best network**
  - growth in the strategic portfolio areas of IP Voice, Mobile, Networking and IT services.

- **Continue to improve the customer experience we provide**
  - further improvements in NPS.
Lines of business
Global Services

We’re a leading global business communications provider, supplying ICT services to 5,500 multinational companies in 180 countries.

By combining our global strengths in networks, ICT and innovation with our deep expertise and global delivery model we’ve become a trusted partner for our customers. We provide them with the services they need to create the digital transformation of their businesses.

During the year, we identified inappropriate behaviour in our Italian business. This is an extremely serious matter and has no place in BT. For full details of what we found, how we responded and what we will do going forward see page 6.

Global Services serves multinational companies headquartered around the world. We’ve been simplifying how we work to provide a sharper focus on our global customers. We’re structured around four regional operations providing expertise in key industry sectors.

Global Services revenue by region
Year ended 31 March 2017

- 30% UK
- 12% AMEA
- 21% Americas
- 37% Continental Europe

Global Services strategic review
We have undertaken a strategic review of Global Services, with the objectives of improving its market and financial performance, its risk profile, and the long-term value that it delivers to BT. Global Services is most differentiated with large, multinational customers, who demand high quality, secure communications. Its product portfolio is industry-leading across a range of areas, including networking, security, cloud collaboration and contact centres.

Technology trends mean that we are now less dependent on owning physical local network access assets around the world, creating the opportunity to reposition Global Services as a more focused digital business. We will prioritise innovation of cloud-based platforms that deliver our products and services, with BT’s global network at the core, to support the digital transformation of our customers. As we implement this strategy, we will ensure that we optimise the value of our global and our local network assets.
To enable this strategic repositioning, we are restructuring our Global Services organisation to a simpler operating model. This will involve a two-year restructuring of our operations, the costs of which will be treated as a specific item.

**Key market trends**

Our customers are globalising and transforming their businesses. They’re using services from the cloud to gain competitive advantage by increasing efficiencies and decreasing IT costs. They want:
- a greater choice of cloud service providers;
- high performance across their network and IT service;
- flexible, end-to-end secure service; and
- a trusted partner to provide ICT services.

The network continues to be the critical infrastructure that connects our customers to their cloud services, their sites, their employees, customers and suppliers. As customers seek more flexible and agile models, they’re increasingly adopting software-based network technologies to achieve the right balance between performance, service, security and cost.

In this market, our main competitors are global telecoms companies such as AT&T, NTT, Orange and Vodafone. We also compete against regional telecoms companies such as Singtel.

**Products and services**

Our portfolio strategy, known as Cloud of Clouds, brings together our six core product families and a network of partners to support the delivery of global network and IT infrastructure services.

**Our six core product families**

- **BT Connect**
  Network services are at the core of our Cloud of Clouds strategy.

  They connect our customers to their people, their own customers and the cloud. We offer a range of flexible, intelligent hybrid and secure IP, Ethernet and internet virtual private network services.

  These include direct connectivity to third-party cloud services providers and the latest Network Function Virtualisation (NFV) and Software Defined Networking (SDN) solutions — the new generation of networking technologies that are giving us a new way to build and manage corporate networks that are fit for the digital age.

  We use a range of access technologies to deliver our network services to over 180 countries.

- **BT Security**
  With cyber-attacks a daily event, cyber security is firmly on the boardroom agenda for many companies.

  We use the expertise we’ve gained from protecting BT to deliver managed security services, threat intelligence analysis and management, and consultancy services, helping our customers protect their organisations from this growing threat.

- **BT One**
  People communicate using technology in many different ways — by phone, instant messaging, email, audio and video conferencing and data-sharing, 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 improve productivity and cut costs by transforming the way they communicate with their customers, colleagues, partners and suppliers.

- **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, 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 Compute**
  Businesses want reliable but flexible ICT platforms and services for their applications, data storage and security. We provide ICT services across our global network from 48 data centres around the world, with 22 of them supporting our cloud services. Our services range from traditional telehousing and colocation to the latest public, private and hybrid cloud solutions.

- **BT Advise**
  Our global team of around 2,000 consultants work closely with customers to understand their business needs and current capabilities so we can create a set of recommendations based on our portfolio. We develop a plan to help customers achieve benefits such as cutting costs, increasing productivity or becoming more agile.
BT for Industries
Our industry-specific solutions help customers overcome particular challenges.

For example:
- our Digital Consumer solution enables retailers to provide an online experience to shoppers in physical stores;
- our Field Force Automation solutions provide mobile workers with access to corporate applications regardless of their location; and
- BT Radianz, the world’s largest secure, financial services cloud community, helps customers cut costs, get to market faster and perform the best trading options.

Supporting our customers’ digital transformation
Our footprint and product portfolio mean we can take the role of leader and trusted partner to our customers, helping them at every stage of their digital transformation journey. We support that journey in three areas:

Digital customer – creating a richer experience for end customers.
Digital business – increasing business agility and innovation through cloud-based solutions.
Digital employee – creating a productive business environment through seamless employee collaboration.

We do this by providing high-performance, integrated and secure network and IT infrastructure services to global customers – our Cloud of Clouds portfolio strategy.

Performance in the year
We’re a global leader for managed networked IT services.

In the last year we’ve been named as:
- a Leader in Gartner’s February 2017 Magic Quadrant for Network Services, Global⁷;
- a Leader in the August 2016 Gartner Global Magic Quadrant for Unified Communications as a Service, Worldwide⁸; and
- a Leader in the June 2016 Gartner Magic Quadrant for Managed Hybrid Cloud Hosting, Europe.⁹

We’re also recognised as a Leader in the IDC ITMarketScape: Asia/Pacific Managed Security Services 2016 Vendor Assessment.

Our cloud collaboration portfolio is now being used by more than one million employees of global organisations.

Performance in the year – strategic

Delivering great customer experience
We’re using customer feedback and insight to inform our decisions and enhance our customers’ experience.

- We implemented the Net Promoter Score (NPS) system in April 2016, so we conduct monthly online surveys to gauge customer loyalty and identify actionable insight.
- We also use Customer Thermometer, our transactional survey programme, to regularly gauge customer experience at key points of interaction.
- Finally, we use Right First Time (RFT) measures and operational KPIs, such as speed of delivery and repair, billing and product quality to provide a snapshot of how we’re performing.

During the year we improved:
- IP Connect Global on-time delivery by 18%;
- the performance of our complex contracts by 22%;
- baseline NPS by 13 percentage points: and
- RFT measures by 3.4%.

At the same time we recognise there’s more to be done, so we’ve put a rigorous plan in place to help us continually improve. This plan addresses key areas of focus, such as lead times, on-time delivery, project management skills and service delivery communications.

Investing for growth
We’ve invested in a new generation of networking technologies, giving us an innovative way to build and manage corporate networks.

Our network
We’re investing in dynamic network services to give our customers greater choice, security, resilience, service and agility in the rollout of high-performance networks. We’re using our expertise in SDN and NFV technology, as well as our global infrastructure, to further improve our portfolio of network services.

We work with a range of organisations to deliver our dynamic network services, including Cisco and Nokia, who will contribute technology to our software-defined WAN service.

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Our products and services
- We completed the acquisition of IP Trade SA, a provider of unified communications and collaboration solutions for trading floor environments.
- We launched a mobile collaboration service in the UK as well as a new mobile roaming service for our global customers, building on our acquisition of EE.
- We’re accelerating our efforts to be the world’s leading cloud services integrator, and expanded our network of partners to include Oracle, Microsoft and T-Systems.
- We’re helping our customers understand what digital can mean for their organisation and how best to use it as an enabler for growth and change through an Advise two-day workshop.
- We introduced Trend Micro’s Deep Security protection for physical, virtual, and cloud servers on our Cloud Compute platform.
- We also integrated Zscaler cloud security access points into our global network, and Symantec’s latest technology into our managed security services.

High-growth regions
We’re continuing to invest for our customers across Latin America, helping them increase productivity and become more competitive. For example, we’ve opened a contract design hub in Brazil and added a unified communications service node in São Paulo.

Transforming our costs
We’ve continued to focus on reducing our costs, with underlying operating costs excluding transit adjusted for the acquisition of EE down 1%.

Our cost transformation programme uses our tried-and-tested approach to improve process efficiency, reduce the cost of failure, enhance the network and improve the value for money we get from our suppliers. For example:
- **Operating model review in AMEA.** We’ve established a consistent and standardised set of principles to improve our performance in countries where we have a low number of resources.
- **Service delivery.** We’ve combined our design and delivery functions to enable faster, more consistent delivery of services at lower cost.
- **Contract reviews.** We’ve reviewed opportunities across shared services and third-party costs. We’ve also introduced improvements in the delivery and in-life support stages of contracts to improve their profitability.
- **Data centres.** We’re evaluating our existing global data centre estate and consolidating our sites to lower our cost base while improving our service offering.

Performance in the year – operating
We achieved a total order intake of £4.6bn, down 10% reflecting challenging international corporate market conditions.

The table below summarises the progress we’ve made on the top priorities we set out in last year’s report.

**Review of last year’s priorities**

<table>
<thead>
<tr>
<th>WHAT WE SAID</th>
<th>WHAT WE DID</th>
</tr>
</thead>
<tbody>
<tr>
<td>We said we’d grow our share of spending with our Global Accounts by 10% over the next three years.</td>
<td>We’re on track to achieve this ambition. We’ve been focusing on deepening customer relationships and cross-selling our portfolio.</td>
</tr>
<tr>
<td>We said we’d achieve double-digit percentage annual growth rates in the revenue we generate from security, cloud unified communications and Cloud Compute over the next three years.</td>
<td>We achieved double-digit growth across cloud unified communications and Cloud Compute. Excluding the delay of milestone-related revenue with a major customer, we also achieved double-digit growth across security.</td>
</tr>
<tr>
<td>We said we’d increase our net promoter score by at least ten points over the next three years.</td>
<td>We raised our baseline net promoter score by 13 percentage points in 2016/17.</td>
</tr>
</tbody>
</table>

Contracts we won this year include:

<table>
<thead>
<tr>
<th>CUSTOMER</th>
<th>CONTRACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alstom (BT One).</td>
<td>Unified communications and collaboration services for 30,000 users at 300 locations.</td>
</tr>
<tr>
<td>Bridgestone Europe (BT Connect, BT One, BT Contact).</td>
<td>Network infrastructure and managed cloud services connecting more than 200 sites across 20 countries in Europe, Middle East and Africa.</td>
</tr>
<tr>
<td>Grupo Santander (BT Connect).</td>
<td>We consolidated our relationship with Grupo Santander.</td>
</tr>
<tr>
<td>International Airlines Group (BT Connect).</td>
<td>Network outsourcing contract to help the company simplify its IT systems and processes and improve efficiency.</td>
</tr>
<tr>
<td>Komatsu (BT Connect, BT Compute).</td>
<td>Global IT infrastructure covering 26 sites across 15 countries in Europe, Asia-Pacific and South-America.</td>
</tr>
<tr>
<td>Michelin (BT Connect).</td>
<td>Comprehensive managed network services connecting 216 sites in 43 countries.</td>
</tr>
<tr>
<td>Randstad (BT Connect, BT One).</td>
<td>Global IT infrastructure providing cloud connectivity to more than 3,500 sites across 37 countries.</td>
</tr>
</tbody>
</table>
Performance in the year – financial
Revenue went up by 8% (2015/16: decreased 3%) including a £470m positive impact from foreign exchange movements and a £17m decline in transit revenue. Our key revenue measure, underlying revenue excluding transit adjusted for the acquisition of EE, decreased by 2% (2015/16: was flat), and excluding the revenue of our Italian business was flat.

In AMEA\textsuperscript{b} underlying revenue\textsuperscript{c} decreased by 4% (2015/16: up 10%) due to milestone-related revenue in the prior year. In Continental Europe, underlying revenue\textsuperscript{c} excluding transit decreased 5% (2015/16: down 1%) and, excluding the revenues of our Italian business, was up 3% (see page 6).

Underlying revenue excluding transit adjusted for the acquisition of EE in the UK was up 5% (2015/16: 2%). The Americas\textsuperscript{d} decreased 6% (2015/16: decreased 10%) due to the ongoing impact of a major customer insourcing services.

Operating costs\textsuperscript{d} went up by 8% (2015/16: down 3%) reflecting EE, the impact of foreign exchange movements and the impact of our investigation into our Italian business. Underlying net operating costs excluding transit adjusted for the acquisition of EE were down 1%.

EBITDA increased 3% (2015/16: 3%). Underlying EBITDA\textsuperscript{d} adjusted for the acquisition of EE was down 11% and excluding the results of our Italian business was up 1%. We have described the issues in Italy on page 6. Depreciation and amortisation was up 4% (2015/16: down 5%). Operating profit decreased by £1m (2015/16: up £36m).

Capital expenditure went up by 2% (2015/16: down 13%). EBITDA less capital expenditure increased by £10m to £134m compared with an increase of £65m last year.

Our operating cash outflow of £245m was £396m worse than last year, as we have unwound the effects of improper working capital transactions in our Italian business.

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2017 £m</th>
<th>2016\textsuperscript{a} £m</th>
<th>2015\textsuperscript{a} £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>5,479</td>
<td>5,074</td>
<td>5,218</td>
</tr>
<tr>
<td>Underlying revenue excluding transit adjusted for the acquisition of EE</td>
<td>(2)%</td>
<td>0%</td>
<td>n/a</td>
</tr>
<tr>
<td>Operating costs</td>
<td>4,984</td>
<td>4,595</td>
<td>4,753</td>
</tr>
<tr>
<td>EBITDA</td>
<td>495</td>
<td>479</td>
<td>465</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>439</td>
<td>422</td>
<td>444</td>
</tr>
<tr>
<td>Operating profit</td>
<td>56</td>
<td>57</td>
<td>21</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>361</td>
<td>355</td>
<td>406</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>(245)</td>
<td>151</td>
<td>28</td>
</tr>
</tbody>
</table>

Priorities for the year ahead
Over the next 12 months we'll continue to focus on delivering improved operational efficiency and great customer experience.

Our top priorities for 2017/18 are:
– implement a leaner and more customer-focused operating model;
– grow our cloud-based services and our security portfolio at double–digit rates; and
– launch a new digital customer experience, leveraging automation and portfolio innovation eg NFV/SDN.

\textsuperscript{a} Revised to reflect the outcome of the investigation into our Italian business and reorganisation of our segments, see note 1 to the consolidated financial statements.

\textsuperscript{b} Asia Pacific, the Middle East and Africa (AMEA)

\textsuperscript{c} Excludes specific items, foreign exchange movements and disposals and for 2016/17 is calculated as though EE had been part of the group from 1 April 2015.

\textsuperscript{d} United States & Canada and Latin America (Americas)
Lines of business
Wholesale and Ventures

At Wholesale and Ventures (W&V) we help other companies provide fixed or mobile telephony services, as well as running a number of BT’s specialist business units.

On 1 April 2016 we integrated BT Wholesale with EE’s wholesale team and some of BT’s specialist business units to form Wholesale and Ventures. We’ve 3,800 people, including 900 in BT Fleet and 700 in BT Supply Chain.

Markets and customers
Our wholesale business helps communications providers (CPs) and other organisations to provide fixed or mobile telephony services. Our ventures provide mass-market services such as directory enquiries and payphones, and enterprise services including BT Fleet and BT Redcare.

Wholesale: Fixed network services
We provide wholesale fixed network services to over 1,400 customers including Sky, TalkTalk, Telefonica O2, Three and Virgin Media, as well as overseas CPs operating in Great Britain.

We also provide specialist media and broadcast services to organisations including the BBC, Channel 4, ITV, Sky, Premier League Productions and Viacom18.

Wholesale: Mobile network services
We help Mobile Virtual Network Operators (MVNOs) that want to offer own-brand mobile plans but don’t own a mobile network. We support 30 MVNO brands with 3.8m mobile customers between them.

We also use the EE network to provide machine-to-machine services, as explained on page 76.

Ventures
Our ventures provide a range of solutions to over 1,000 enterprise customers including law firms, energy providers and mobile payment companies. We also handle millions of directory enquiries and 999 calls, and deliver the Phone Book to over 21m homes and businesses.

Market trends
The key wholesale market trends this year were:

- fewer calls, more IP voice services. This year people made 14% fewer calls. But takeup of business-grade IP voice services is accelerating;
- bandwidth in demand. 46% of all our wholesale broadband lines ordered this year were delivered over fibre, while average data usage over our fibre lines rose by 18%; and
- more mobile. The MVNO market is expanding as existing MVNOs add 4G and new MVNOs launch.
**Products and services**

**Broadband and Ethernet**

We provide CPs with broadband and Ethernet connections between their core network and their customers. Wholesale Broadband Connect can serve 99% of premises with copper-based broadband (2015/16: 95%) and more than 26.5m premises with fibre. Our older broadband network brings our total coverage to more than 99% of all premises.

Wholesale Ethernet lets customers connect over 99% of business premises at speeds of up to 10Gbps. Wholesale Optical extends those speeds to 100Gbps. This year we extended our own fibre-based Ethernet to many more exchanges and third-party datacentres.

**Wholesale Ethernet: present in BT exchanges**

<table>
<thead>
<tr>
<th>Year</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count</td>
<td>1,232</td>
<td>1,306</td>
<td>1,482</td>
<td>1,911</td>
</tr>
</tbody>
</table>

Our Managed Ethernet Access Service (MEAS) uses Ethernet technology to carry mobile voice and data traffic to and from mobile operators’ transmission masts.

**Voice**

CPs use our IP Exchange (IPX) platform to carry their customers’ voice calls beyond the reach of their own voice network. IPX is now used by over 170 CPs, including most of the UK’s biggest operators.

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

**Hosted communications**

Traditionally, businesses have made and received calls over phone lines via a switchboard. Wholesale SIP-Trunking delivers the calls over broadband or Ethernet while Wholesale Hosted Centrex moves the switchboard capability into BT’s network. Similarly, our Hosted Contact Centres replace the systems and services needed to handle large numbers of inbound or outbound customer calls.

**Mobile Virtual Network Operator**

We were named Best Wholesale Operator at MVNO World Congress 2016. Customers can use their brand, build their own retail propositions, sell mobile plans through their channels and own the relationship with the end customer, while we do the rest.

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**Virgin Mobile**

In December we announced a five-year deal to provide wholesale mobile network services to Virgin Media, whose Virgin Mobile service has more than 3m subscribers. This replaces an existing MVNO agreement between EE and Virgin Media and extends its exclusivity to 2021.

**Machine-to-machine**

Machine-to-machine services support the exchange of information between devices. Companies can securely communicate with their devices and improve their services’ features and reliability using our mobile and fixed networks.

**Media services**

Our 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. Elsewhere, local partners help us link TV stations to major sports venues worldwide.

We also offer media services such as cloud-based content playout and media file acceleration.

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**Premier League Productions**

This year we installed the UK’s first uncompressed outside broadcast network for Premier League Productions (PLP), a partnership between the Premier League and international sports production company IMG.

We now provide live HD video feeds between all 20 Premier League football stadiums and IMG’s studios in London. This means IMG can move its production facilities from the stadium to its studios; while PLP can eliminate the issues associated with distributing compressed video, such as delays and reduced image quality.
Ventures
Several of our ventures provide well-known services nationwide:

999: we handle the nation’s 999 calls on behalf of BT and all other CPs.

Directory Enquiries: calling 118 500 gives people easy access to all listed phone numbers.

Payphones: we provide most of the UK’s payphones, whether in public places or on private premises.

The Phone Book: we deliver this to over 21m UK homes and businesses.

Other ventures are more enterprise-oriented:

BT Cables: we manufacture, source and supply cabling for telcos, railways and other industries.

BT Fleet: we source, manage and maintain BT’s fleet of 33,000 vehicles. We manage a further 58,000 vehicles for external customers including the AA and National Grid.

BT Redcare: we provide secure signalling between on-site alarm systems and central alarm receiving centres.

BT Supply Chain: we hold and dispatch products such as mobile handsets and smart meters. If companies have a large field engineering team we can manage their vehicles, supply their engineers, return any surplus supplies to base and provide real-time data for route management.

Tikit: we provide IT solutions to law and accountancy firms in the UK, where we supply more than two-thirds of the top 100 law firms, and across Europe, North America and Australia.

Big data and messaging: our data scientists help companies’ and local authorities’ planning and decision-making.

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.

33,000 vehicles sourced, managed and maintained for BT Fleet

58,000 vehicles managed for external customers

Pelipod
This year we bought Pelipod, a data-driven secure storage company. Pelipod specialises in delivering items directly to a secure box that’s easy to access and close to an engineer’s place of work.

Performance in the year – strategic

Delivering great customer experience
Right First Time (RFT) tracks our ability to deliver orders and repair faults on time, every time.

This year we achieved our best RFT result for many years, up 7.5%, including fulfilling 93% of broadband orders on time (up from 91% last year).

We changed the way we measure customer satisfaction. We now measure customers’ Net Satisfaction, as the difference between those who score us very high (9+) and those who score us lower (six or less). Our score in the former BT Wholesale business was +36.6, up by 2.6. During the year we extended the measure to include three of our ventures. On this basis, our score overall was +44.8.

3D printing
We’re using 3D printing to improve the customer experience in our Supply Chain business. 3D printing shortens the time it takes to get practical ideas off the drawing board and out into the field. Now Openreach, a Supply Chain customer, is trialling a range of 3D printed prototypes – for example, a cable-threading needle which makes it easier for engineers to add new circuits in a roadside cabinet without snagging other wires.
Lines of business continued

Wholesale and Ventures continued

Investing for growth
This year we’ve invested in both new connectivity options for wholesale networks and the services needed to run those networks. Looking further ahead, we’re developing a new strategy for the Internet of Things.

Network services
This year we’ve trialled two new access options from Openreach: G.fast and Single Order Generic Ethernet Access. We’re ready to offer them as soon as Openreach launches them. Meanwhile we’ve been developing the capability to run Ethernet services over 4G mobile networks so we can provide them more quickly and switch over to 4G if the fixed network fails.

We’ve also invested in a range of new features for our Hosted Communications Services which we’ll launch during 2017/18.

We have a long track record of running networks on our customers’ behalf. This year we created a new team to offer these services on a bigger scale. These range from taking over a single function like order management, through to outsourcing and transforming a customer’s entire network.

Internet of Things (IoT)
W&V leads strategy development for IoT across BT. IoT is a network of connected objects that exchange data to drive insight and action. We’re involved in major IoT projects including MKSmart in Milton Keynes and CityVerve in Manchester.

In December we added 25 locations, including the BT Tower, to the London ‘Things Connected’ network, which local communities can use to transform their business or daily lives.

Transforming our costs
Our many ongoing cost transformation projects continued to deliver savings through:
- reduction in supplier cost by renegotiating better terms and changing or consolidating suppliers;
- lowering our network cost by re-engineering existing platforms and improving their utilisation;
- consolidation of legacy and end-of-life platforms; and
- better productivity, together with rationalisation of support functions and overheads.

Performance in the year – operating
While usage of our more traditional products declined as expected, in other areas we were able to drive revenue growth as well as a healthy order book.

New BT digital street units
In October we announced a deal with two partners to replace hundreds of our phone boxes with new digital units which will offer free ultrafast wi-fi, free phone calls and free mobile phone charging.

The first units will be deployed in London in 2017. We expect them to generate substantial advertising revenue while benefiting the communities in which they operate.

This year we signed almost £2bn of orders. Deals included:
- extending our MVNO deals with Virgin Media and ASDA;
- supplying an Avaya Cloud Solution for thousands of contact centre staff at a major utility provider;
- re-signing a number of large Ethernet contracts, securing those circuits for the future;
- new IoT solutions for major corporate clients; and
- taking over management of the Environment Agency’s 1,350 vehicles.
Our Ethernet base grew by 14% this year, well ahead of the market. Ethernet circuits are still replacing the shrinking number of Partial Private Circuits (PPCs). The number of broadband lines we provide over fibre grew by over 60,000; but our total broadband base fell by 25,000, mainly as a result of some customers’ own LLU network expansion.

In last year’s report we set out our top priorities for this year. In the table below we report back on what we’ve achieved.

Review of last year’s priorities

<table>
<thead>
<tr>
<th>WHAT WE SAID</th>
<th>WHAT WE DID</th>
</tr>
</thead>
<tbody>
<tr>
<td>We said we’d integrate the various business units that now comprise W&amp;V.</td>
<td>We launched the new W&amp;V organisation on 1 April 2016.</td>
</tr>
<tr>
<td>We said we’d create revenue and cost synergies as a result of the new organisation.</td>
<td>The many services provided by our new, digital street units (page 78) draw on a wide range of BT capabilities. These include payphone sites, BT Wi-fi, the fibre networks that connect the payphone to the internet and to the BT platform providing IP voice calls, BT’s Next Generation Text Service, and end-to-end service management. And we’ve made good progress in creating cost synergies in our Supply Chain operations.</td>
</tr>
<tr>
<td>We said we’d continue to improve customer experience, especially in Ethernet delivery.</td>
<td>We achieved our best RFT result for many years. For Ethernet specifically we implemented a new and much improved ordering system. And we designed a new Ethernet service that will run over 4G; we’ll be trialling this with customers early in the new financial year.</td>
</tr>
<tr>
<td>We said we’d further expand our Ethernet network.</td>
<td>We expanded our Ethernet network to another 429 exchanges.</td>
</tr>
<tr>
<td>We said we’d increase the number of customers using fibre rather than copper broadband.</td>
<td>Our fibre broadband base rose by over 60,000 this year.</td>
</tr>
<tr>
<td>We said we’d further strengthen our defences against attempted cyber attacks and fraud.</td>
<td>We’ve upgraded many of our internet-facing systems with additional firewall protection.</td>
</tr>
<tr>
<td>We said we’d continue our cost transformation activities.</td>
<td>We further reduced our own network costs and overheads, as well as third-party supplier costs.</td>
</tr>
</tbody>
</table>

Ethernet installed base

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
</tr>
<tr>
<td>16,900</td>
</tr>
</tbody>
</table>

IPX carried 22bn voice minutes. This was up 9% on last year, excluding minutes carried for EE. IPX growth has slowed now that more of the UK’s major operators have completed their transition from Time-Division Multiplexing (TDM) to IP voice networks. Meanwhile the number of voice minutes that we carried over traditional TDM networks fell.

Our SIP Trunks and Hosted Centrex users grew by 24% and 40% respectively.

In BT Fleet the number of vehicles under management grew by 15%. We implemented round-the-clock working in some garages, recruited over a hundred extra technicians and appointed 47 Modern Apprentices.

We provided professional services to help upgrade and/or install over 5,000 4G basestation sites for mobile network operators.

22bn
voice minutes carried by IPX.
Up 9% on 2016

5,000
we helped upgrade and/or install over 5,000 4G transmission sites
Lines of business continued
Wholesale and Ventures continued

Performance in the year – financial
Revenue was down 7%, or 3% adjusted for the acquisition of EE, compared with a 4% decline last year. This included £30m or 37% less transit revenue than the year before.

Last year our reported numbers included all revenues from EE as a customer until the end of January 2016. Where appropriate, we give yearly comparisons both including and excluding those revenues.

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2017 £m</th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,109</td>
<td>2,274</td>
<td>2,361</td>
</tr>
<tr>
<td>Underlying revenue(a) excluding transit adjusted for the acquisition of EE</td>
<td>(3)%</td>
<td>0%</td>
<td>n/a</td>
</tr>
<tr>
<td>Operating costs</td>
<td>1,275</td>
<td>1,519</td>
<td>1,615</td>
</tr>
<tr>
<td>EBITDA</td>
<td>834</td>
<td>755</td>
<td>746</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>306</td>
<td>253</td>
<td>245</td>
</tr>
<tr>
<td>Operating profit</td>
<td>528</td>
<td>502</td>
<td>501</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>226</td>
<td>209</td>
<td>294</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>587</td>
<td>536</td>
<td>416</td>
</tr>
</tbody>
</table>

Revenue was down 7% or 3% adjusted for the acquisition of EE. This reflects the market decline in legacy products offset by growth in Ventures.

Managed Solutions revenue declined 33%. MEAS saw a 6% fall: mobile networks have now largely completed this phase of their network installation programme, so they added capacity at fewer sites and connected fewer new sites. This was partially offset by growth in other contracts.

Data and Broadband revenue was down 5%, driven largely by Partial Private Circuits, though there was good growth in fibre broadband. Ethernet saw a 14% increase as the rental base grew to 43,800.

Voice revenue was down 22% due to the market decline in call volumes and the inclusion of ladder revenues in last year’s numbers.

Wholesale Mobile revenue was £223m, supported by growing data usage and more customers moving to 4G.

Ventures revenue of £312m was up 7% compared to last year. This was driven by growth in BT Fleet, thanks to new strategic alliances, and in BT Supply Chain which enlarged its external customer base. These were offset by a £6m reduction in BT Cables because of lower demand for copper cabling, and another £6m reduction as our Phone Book, Payphones and BT Redcare businesses declined in line with their markets.

Operating costs decreased 16%, while underlying operating costs excluding transit were down by 15%.

EBITDA grew quarter on quarter throughout the year. It was up on the prior year by 10% but down 6% adjusted for the acquisition of EE. This reflected lower revenues and the continuing migration to lower-margin IP services, offset by growth in Wholesale Mobile and Ventures.

Depreciation and amortisation was up 21% (2015/16: 3%), primarily due to the inclusion of Ventures assets such as BT Fleet vehicles. Operating profit went up by 5% (2015/16: flat).

Capital expenditure was up 8% because of investment in new MVNO platforms. Working capital was impacted by timing on managed solutions invoicing and VAT; this contributed to a 10% increase in free cash flow.

Priorities for the year ahead
Over the next 12 months we’ll carry on investing for the future and further enhancing our customer experience.

Our top priorities for 2017/18 are:

Roll out new services
- start to deploy our new digital street units; and
- expand our managed services capacity, to help customers run their networks and operations.

Develop new solutions
- helping mobile network operators prepare for the next generation of 5G mobile networks;
- adding 4G mobile access to our Hosted Communications Portfolio; and
- for the Internet of Things.

Improve our customer experience
- in particular our RFT delivery for Wholesale Ethernet and Hosted Communications Services.

\(a\) Excludes specific items, foreign exchange movements and disposals and from 2016/17 is calculated as though EE had been part of the group from 1 April 2015.
Lines of business
Technology, Service and Operations (TSO)

TSO is our internal technology unit. It’s responsible for creating and operating our global networks, platforms and IT systems.

We work closely with each of our lines of business, creating new products for them and making sure that services evolve to reflect the changing needs of their customers. And we make sure that BT’s networks and systems are reliable and resilient.

We manage BT’s research and development and our worldwide patent portfolio. Find out more on page 32.

There are more than 13,000 people in TSO, and this year we recruited over 220 graduates and apprentices. TSO people work on a wide variety of rapidly-changing technologies so we’ve developed comprehensive training and career pathways to attract and retain the best talent. For example, we now offer Degree Apprenticeships that allow apprentices to achieve a full bachelor’s degree while training on the job.

Products and services
We manage the infrastructure for BT’s products, services and internal systems, such as our IT systems and voice, data and TV networks.

BT manages networks for many of the world’s top companies. Our people design and deliver the solutions that make this happen.

Performance in the year – strategic

Delivering great customer experience
To overcome wi-fi problems that people can encounter in the home, we developed and launched the BT Smart Hub. This uses smart technology such as improved antennas to improve wi-fi performance.

We also developed the systems behind the new BT Call Protect service, designed to stop companies that regularly pester our customers with nuisance calls. Find out more on page 57.

Investing for growth
This year we’ve completed the rollout of our new Ethernet switches. They’re now installed in 585 exchanges so even more businesses can access BT Ethernet services.

We’re also embracing new technologies such as programmable networks. These deliver services faster and provide real-time visibility and control of a customer’s network. With the launch of Dynamic Network Services we’re offering these capabilities to Global Services’ customers.

We’ve also completed the first voice calls on our single fixed and mobile infrastructure which enables us to offer new converged services such as high-definition voice calling.

Transforming our costs
Following the acquisition of EE we’ve taken the opportunity to review and rationalise the number of applications we use.

We’re also migrating applications onto our Enterprise Cloud, making them easier to manage and lowering their running cost.

Performance in the year – operating
We’re always looking for new ways to maintain and refresh the technology in our networks and service platforms.

We’ve seen record levels of data traffic sustained throughout the year, and our investments have been focused to maintain high levels of performance.

For example, we installed infrastructure that cuts congestion in the core network to improve the UK broadband experience. See page 30 for more on the improvements we’ve been making to our networks.

We’ve improved the reliability of the IT systems we use to trade with our customers for the fourth year in a row. We’ve also continued to cut our costs and the group’s energy consumption. See page 42 for more details.
Lines of business continued
Technology, Service and Operations (TSO) continued

The table below summarises the progress we’ve made on the top priorities we set out in last year’s report.

<table>
<thead>
<tr>
<th>Review of last year’s priorities</th>
<th>WHAT WE SAID</th>
<th>WHAT WE DID</th>
</tr>
</thead>
<tbody>
<tr>
<td>We said we’d develop technology solutions that increase the broadband speeds for homes at the end of long copper lines.</td>
<td>We successfully trialled Long-Reach VDSL at Isfield, Sussex and North Tolsta on the Isle of Lewis.</td>
<td></td>
</tr>
<tr>
<td>We said we’d move from a technology trial to a live customer trial of an all-IP voice service.</td>
<td>We’ve started running wholesale and communications provider trials of IP voice.</td>
<td></td>
</tr>
<tr>
<td>We said we’d investigate technology that could provide better picture quality on our TV platform.</td>
<td>We’ve performed perception tests to see what viewers think of the latest developments in TV technology.</td>
<td></td>
</tr>
<tr>
<td>We said we’d enhance the cloud-based services that we offer to businesses.</td>
<td>We added a new software-defined WAN service to Global Services’ dynamic network services portfolio.</td>
<td></td>
</tr>
<tr>
<td>We said we’d continue our network rationalisation.</td>
<td>We turned off some of the equipment in our PSTN network that we no longer needed, saving over £1m in energy costs. By removing this older equipment, we’ve also released spares to avoid repair costs and help contribute to the best performance of the PSTN in eight years.</td>
<td></td>
</tr>
</tbody>
</table>

Priorities for the year ahead

Over the next 12 months we’ll carry on improving our networks, platforms and IT systems, and doing everything possible to help deliver a great customer experience.

Our top priorities for 2017/18 are:

**Enhance the UK broadband experience**
- deploy architectural and infrastructure improvements to cope with broadband traffic growth and improve the quality of the UK broadband experience.

**Extend 4G coverage**
- deliver upgrades to existing mobile cell sites and deploy new cell sites to increase 4G coverage in support of the Emergency Service Network contract.

**Improve systems reliability**
- continue to improve the reliability of our IT and network platforms, ensuring they’re as resilient as possible.
Lines of business
Openreach

As the people responsible for building and maintaining much of the country’s digital infrastructure, we have continued to provide the foundation for Britain’s booming digital economy against a backdrop of profound changes to our business.

This has been a momentous year for Openreach

Over the past 12 months, we’ve made big strides in our strategy to deliver better service, broader coverage and faster speeds for the UK. At the same time, how we operate and how the market should be regulated have been fiercely debated topics.

The major theme in Ofcom’s once-in-a-decade Digital Communications Review became the extent to which we should operate more independently from BT – and in March 2017, a long-term regulatory settlement was agreed that will see us become a distinct, legally separate company within BT Group.

Fundamental governance changes

Under this agreement, we’re gaining more control of our strategy, investments and plans within a strategic and financial framework defined by BT. This means we can make more of our own decisions and be more autonomous, transparent, and accountable to everyone who has a stake in us. This will strengthen our ability to work in partnership with all our customers and deliver the communications infrastructure that is the foundation of the UK’s vibrant internet economy.

Central to these changes are a first-class governance structure and a new board with a majority of independent members. I was delighted to be appointed as the first Openreach chair back in November 2016. I’m also pleased to have appointed three independent board members of the highest calibre: Sir Brendan Barber, former general secretary of the Trades Union Congress and current chair of Acas; Edward Astle, a former board member of National Grid and current member of the Equality of Access Board (EAB); and Liz Benison, chief executive, UK & Europe, Local & Regional Government at Serco.

Our new board will work closely with Clive Selley and his executive team, and we’ll be responsible for setting the Openreach strategy whilst overseeing its performance. We’ll also make sure the business treats all customers equally and continues to invest in Britain’s digital future.

Rising to the challenge

We’re responsible for services that are hugely important to people and businesses throughout the country. The scale of what we manage is huge – overseeing 158m kilometres of telecommunications wires and fibre cables and more than 25,000 customer interactions every day.

We recognise the importance and size of the challenge before us.

We’re making progress in moving Openreach forwards and our renewed focus on service is starting to deliver improvements for our Communication Provider customers and their customers. Clive’s team halved the number of missed appointments Openreach is responsible for by the end of the financial year. And we’ve halted a historical rise in faults across our network. We’ve also continued to build our superfast broadband network for homes and businesses, and we’re increasingly upgrading the most remote and hard-to-reach areas of the country in partnership with both government – via the BDUK programme – and with individual communities and housebuilders.

We made our fibre network available to over a million more premises this year and we won’t stop there. We’re also continuing with our ambitions to scale ultrafast technologies, to make speeds of over 100Mbps available to up to 12 million homes and businesses by 2020.

In 2016 Ofcom reported that the UK already had the highest fibre broadband availability of all the major European economies and, thanks to our open wholesale network, we have one of the most competitive telecommunications markets anywhere in the world. I’m confident that continuing to invest in our broadband network and working more closely and collaboratively with our customers and the wider industry will provide the national telecommunications infrastructure necessary to support the future growth of the UK economy, something that will be particularly important as we leave the EU.

Financial investment in our network alone will not deliver the change we need – we’ll invest in our people too. This year we’ll expand our engineering workforce by hiring 1,500 trainees and we’ll train more engineers to complete more tasks in a single visit. That will play a pivotal role in ensuring we meet our customers’ expectations.

Finally, I want to address the issue of Deemed Consent. Ofcom’s investigation into Deemed Consent practices showed that in the past, Openreach made a number of mistakes when processing orders for high-speed business connections. This simply shouldn’t have happened and we apologise wholeheartedly to the communications providers affected. During my short time in Openreach, I’ve seen significant improvements being made to the way we deliver these connections and we are determined to make sure the same mistakes aren’t repeated in future.

We’re committed to fixing the issues of the past, delivering better service, and investing in our network – and we recognise that to be successful in these goals, we need to work in closer partnerships with our customers, the wider industry, regulators and government. By working as a team, we can achieve success collectively and build the telecommunications infrastructure that will power Britain’s leading digital economy for years to come.

Mike McTighe
Chairman
11 May 2017
We build the network that connects Britain’s homes and businesses to the future.

We’re responsible for providing services over the local access network, sometimes referred to as ‘the last mile’, installing and maintaining the fibre and copper communications networks that connect homes and businesses.

Communications Providers (CPs) access our network on equivalent terms, which means they have access to the same products, prices and levels of service. They use our network to deliver services ranging from home broadband, television and telephone 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>G.fast</th>
<th>DP</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTTP</td>
<td>1,500 exchanges</td>
<td>97,000 PEPs</td>
<td>4.7m DPs</td>
<td>30m premises</td>
</tr>
</tbody>
</table>

We’re pleased that the proposals to further enhance the organisational structure of our business have been accepted by Ofcom as a pragmatic solution to meeting its DCR concerns. We’re fully committed to implementing the requirements of the Commitments and Governance Protocol which includes a focus on compliance, increased transparency and improved customer engagement as quickly as possible.

We’ve already started to introduce new governance and measures, where possible and appropriate, in advance of full implementation of the DCR agreement. For example, we’ve made a number of governance reforms to make Openreach a more transparent and autonomous business. In November 2016 we appointed our first chairman, Mike McTighe, who is leading our newly-formed board.

The board has a majority of independent members and will be responsible for setting Openreach’s strategy and overseeing its performance. It will make sure we treat all customers equally while investing in better service, broader coverage and faster broadband speeds for the UK.

Other activity underway includes the development of a new CP consultation process for major new strategic investments and the redesign of the Openreach brand to remove the reference to BT Group and the associated logo. We’re also preparing for the implementation of the remainder of the DCR agreement, including incorporation of Openreach Limited and the transfer of employees to it, once the preconditions have been met.

Markets and customers

The UK has the highest share of GDP generated by the digital economy of any country in the G20, and the highest superfast availability and take-up compared to our major European peers. We’re playing our part in this success story by building and operating the largest superfast network in the country.

At the end of December 2016 there were 25.3m broadband lines in the UK. 80% of these, excluding Hull, use the Openreach network with the rest mainly on Virgin Media’s cable network.

Delivering a more independent Openreach

We’re playing our part in this success story by building and operating the largest superfast network in the country.

Our customers are the CPs who provide communications services to end customers, and property developers building new properties.

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Products and services

We provide network access and engineering services as well as four main products and services: copper access, fibre access, Ethernet and optical, and infrastructure solutions. Our network can carry broadcast and on-demand internet protocol television (IPTV). Our multicast service over fibre cuts the cost of broadcast TV. We also provide access to our network via our ducts and poles and will be launching a new Dark Fibre product in October 2017 (subject to CAT ruling).

Copper access

- 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.
- Local Loop Unbundling (LLU) provides CPs with a direct connection to the local network, or local loop. CPs can install their own equipment in, or near to, our exchanges, and use it to provide phone and broadband services to their customers.

Fibre access

Our wholesale fibre product is called Generic Ethernet Access. We offer a number of versions:
- Fibre-to-the-cabinet (FTTC) uses fibre from the exchange to the street cabinet and the existing copper network for the final link to the customer.
- Fibre-to-the-premises (FTTP) uses fibre all the way from the exchange to the property and offers ultrafast speeds from 100Mbps up to 1Gbps. We’ve launched 500Mbps and 1Gbps speed tiers for smaller businesses needing ultrafast speeds at lower price points than Ethernet.

This allows us to offer superfast broadband (speeds over 24Mbp/s) via FTTC and FTTP and ultrafast broadband (speeds over 100Mbps) via G.fast and FTTP.

There are more than 580 CPs using our network. They operate in three markets:
- **Consumer** – made up of households using fixed-line broadband and telephone services. Our largest customers include BT’s Consumer division, Sky and TalkTalk;
- **Business** – consisting of the 5.5m businesses in the UK. Most of our customers serve business clients; and
- **Infrastructure** – including firms building network infrastructure to data centres and mobile cell sites, and property developers connecting new developments.

We also have relationships with communities throughout the UK who co-fund investment in fibre networks with us through Community Fibre Partnerships.

The market trends are:
- ongoing demand for connectivity as total fixed broadband ownership steadily rises;
- increasing data usage, propelled by video streaming driving demand for faster connections and major investment in backhaul capacity and network reach;
- cloud computing increasing corporate demand for connectivity;
- a fast-growing data centre market creating a new need for high-capacity circuits (1Gbps or more); and
- strong demand for Ethernet and optical service products as businesses seek better speeds and reliability.

<table>
<thead>
<tr>
<th>Average monthly fixed data usage</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>per residential connection</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>As at 30 June</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>23GB</td>
<td>30GB</td>
<td>58GB</td>
<td>97GB</td>
<td>132GB</td>
</tr>
</tbody>
</table>


Competitors

Our main competitors are other network builders, the largest being Virgin Media. Its cable network covers around half of UK homes, with plans to reach around 17m premises by 2019.

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 across urban and rural areas, increasing the competition we face.

Competitors in the business and infrastructure markets include Virgin Media, Colt Group and Vodafone. CityFibre’s prominence in this market continues to grow as it fulfils its plans to cover 50 ‘Gigabit cities’ by 2020.

Pricing, service delivery and product innovation remain competitive themes. The ‘price per Gigabit’ is being pushed down by intense competition, particularly in urban areas. The introduction of a Dark Fibre product later in 2017 will increase price competition further.
Lines of business continued
Openreach continued

**Ethernet and Optical**
CPs use these high-speed fibre connections to build and extend their networks and provide high-quality, high-bandwidth services to businesses and the public sector.

- **Ethernet Access Direct (EAD)** offers competitive services, from 10Mbps to 10Gbps, to all UK businesses and infrastructure markets.
- **Optical Spectrum Services (OSS)** are scalable wavelength solutions offering up to 100Gbps at any distance.

**Infrastructure solutions**
Our infrastructure solutions let CPs build their own networks. They allow third parties to request rearrangements of our network and for us to work on their networks.

- **Flexible Co-mingling** allows CPs to place their equipment in our exchanges.
- **Physical Infrastructure Access (PIA)** lets CPs use our ducts and telephone poles to deploy their own fibre networks. PIA has been available since 2011.
- **Mobile Infill Infrastructure Solution (MiiS)** lets CPs install their radio equipment in special cabinets linked to antennas on telephone poles and use their spectrum to improve mobile coverage.
- **Network rearrangements** help third parties to progress their projects by moving or removing our network.

**Performance in the year – strategic**

**Delivering great customer experience**
The internet is an essential part of modern life. Every year, customers expect more from the service we provide, and we’re committed to meeting their needs.

The table on page 87 shows Openreach’s service performance on a number of key measures known as Minimum Service Levels (MSLs). These are quality of service standards for installation and repair which are set by Ofcom and increase annually. In May 2016, six Ethernet MSLs were added to the existing set of 60 copper MSLs. We publish this data quarterly with additional levels of detail.

This year we exceeded all 40 of Ofcom’s copper MSLs that were due in the year, for the third year in a row. And we remain ahead on the other 20 which are measured to March 2018.

We keep making progress with our Ethernet delivery, improving quality of service, providing more Ethernet circuits than ever before, and reducing the average age and number of jobs in our workstack.

Even so, we’re disappointed that we’ve missed one of the Ethernet MSLs due to the impact of our most complex Ethernet orders, where we experience delays that aren’t fully within our control such as road traffic management.

We launched the ‘Better service’ campaign to make real improvements in our customer service. We halved missed appointments by the end of the financial year. And we invested £32m to improve resilience and halt a historical rise in network faults. We also cut the number of customers waiting over 90 days for new orders by 60%a.

Our Customer Satisfaction Score is provided by end customer surveys from our CP customers. The CPs’ sampling strategy has changed through the year making a like-for-like comparison difficult and has resulted in our performance being under reported. We’re working with the CPs to standardise sampling to enable future year-on-year comparisons.

**Right First Time**, improved by 5.1% (down 6% in 2015/16), focusing particularly on time to repair. We completed 79% of repairs on timeb, a four percentage point increase compared with last year, and reduced the average time to restore service by five hours. We see the MSLs as a baseline and set ourselves a more challenging RFT target because we know there’s more to be done to deliver the service our customers expect.

We’ve proactively improved our PIA processes by providing greater flexibility and self-service options. These include a digital map of our network which makes it quicker and easier for CPs to understand where our ducts and poles can help them to roll out fibre.

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a For copper-based services.
b For LLU, WLR, PSTN and NGA services.
Openreach performance against service responsibilities

### Home and smaller businesses

<table>
<thead>
<tr>
<th></th>
<th>Movement</th>
<th>Q4 2016/17</th>
<th>Q4 2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average time to install with an engineer</td>
<td>▲</td>
<td>13.22</td>
<td>14.44</td>
</tr>
<tr>
<td>(working days)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average time to install without an</td>
<td>▼</td>
<td>9.64</td>
<td>9.49</td>
</tr>
<tr>
<td>engineer (working days)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Installation requiring an engineer where</td>
<td>▲</td>
<td>0.37%</td>
<td>1.12%</td>
</tr>
<tr>
<td>wait is 22 days or longer for an</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>appointment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average time for first available</td>
<td>▲</td>
<td>6.82</td>
<td>8.51</td>
</tr>
<tr>
<td>appointment date for new installation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(working days)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New lines requiring an engineer visit</td>
<td>▼</td>
<td>1.65%</td>
<td>1.34%</td>
</tr>
<tr>
<td>not installed 31 days past target date</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average time to fix faults Maintenance</td>
<td>▲</td>
<td>1.99</td>
<td>2.82</td>
</tr>
<tr>
<td>level 1 (working days)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average time to fix faults Maintenance</td>
<td>▼</td>
<td>1.72</td>
<td>1.94</td>
</tr>
<tr>
<td>level 2 (working days)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faults not cleared after 31 days or more</td>
<td>▼</td>
<td>0.62%</td>
<td>1.60%</td>
</tr>
<tr>
<td>Maintenance level 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faults not cleared after 31 days or</td>
<td>▼</td>
<td>0.94%</td>
<td>1.79%</td>
</tr>
<tr>
<td>more Maintenance level 2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Home and smaller businesses Minimum Service Levels

<table>
<thead>
<tr>
<th></th>
<th>Movement</th>
<th>Ofcom minimum standard</th>
<th>Q4 2016/17</th>
<th>Q4 2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>New lines installed on time (WLR3)</td>
<td>▲</td>
<td>89%</td>
<td>94.55%</td>
<td>93.84%</td>
</tr>
<tr>
<td>New lines installed on time (MPF)</td>
<td>▲</td>
<td>89%</td>
<td>94.14%</td>
<td>93.02%</td>
</tr>
<tr>
<td>First available appointment date for</td>
<td>▲</td>
<td>79%</td>
<td>92.91%</td>
<td>86.54%</td>
</tr>
<tr>
<td>new installation (working days) 12 days</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>or less (WLR3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First available appointment date for</td>
<td>▲</td>
<td>79%</td>
<td>95.38%</td>
<td>89.65%</td>
</tr>
<tr>
<td>new installation (working days) 12 days</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>or less (MPF)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faults fixed within agreed time</td>
<td>▲</td>
<td>77%</td>
<td>86.54%</td>
<td>74.53%</td>
</tr>
<tr>
<td>Maintenance level 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Faults fixed within agreed time</td>
<td>▲</td>
<td>77%</td>
<td>81.87%</td>
<td>76.14%</td>
</tr>
<tr>
<td>Maintenance level 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Larger business Minimum Service Levels

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>2016/17</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average time to install (working days)</td>
<td></td>
<td>46</td>
<td>41.4</td>
</tr>
<tr>
<td>Delivery date certainty</td>
<td></td>
<td>80%</td>
<td>85.4%</td>
</tr>
<tr>
<td>Circuits provided in 30 working days</td>
<td></td>
<td>40%</td>
<td>57.4%</td>
</tr>
<tr>
<td>Circuits provided in more than 159</td>
<td></td>
<td>3%</td>
<td>3.2%</td>
</tr>
<tr>
<td>working days</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average time to initial CDD(^\text{a})</td>
<td></td>
<td>61</td>
<td>40.2</td>
</tr>
<tr>
<td>Faults fixed within agreed time</td>
<td></td>
<td>94%</td>
<td>94.2%</td>
</tr>
</tbody>
</table>

**Notes:**

- The homes and smaller businesses tables compare performance in the quarter and are not annual measures.
- The larger business measures have had an “adjustment” applied to them in line with the Ofcom measurement methodology.
- \(^\text{a}\) Contractual Delivery Date.
Lines of business continued
Openreach continued

2 Investing for growth
We’ve invested £11bn in Britain’s digital infrastructure over the last ten years, committing over £3bn to create a fibre network that provides affordable high-speed broadband to the vast majority of the UK.

Our ambition is to deliver ultrafast speeds to 12m homes and businesses by 2020 using FTTP and G.fast. Our G.fast technology can deliver ultrafast speeds of 300-500Mbps over existing copper wires with minimal disruption. This technological capability will allow us to offer speeds of over 100Mbps to 10m homes by 2020. After a successful trial we’re rolling out G.fast to 17 locations as part of our pilot deployment phase.

We keep extending, upgrading and maintaining our copper network which underpins most of our services in the UK. We’ve raised preventative maintenance spend by 104% compared to last year and this will make our network more weather resilient in future.

Our new Dark Fibre product will launch in October 2017 (subject to CAT ruling). This will provide a dedicated, unmonitored, unlit optical fibre path between two sites up to 86km apart. CPs can use this to build connectivity solutions.

Investing in our people
We’ve a workforce of 30,400 people, including skilled network engineers and planners who maintain our access network.

This year we invested in hiring over 1,500 people including around 250 apprentices and graduates. Our apprentices are trained on a wide range of skills relating to provision and repair activities to improve customer service. Our graduates complete a variety of project roles in order to learn the business, before taking on roles within our operational teams.

Most of our new recruits, including 50 apprentices, have moved into front-line customer service engineering roles across the country. Another 75 will increase our in-house civil engineer capability. We’re training 100 apprentices on fibre jointing to improve Ethernet delivery and another 65 have been trained on connectorised fibre for our superfast broadband network build.

We also launched our Fibre Academy and showcase to give our apprentices and engineers the training and hands-on experience they need.

3 Transforming our costs
We keep reviewing the way we work, simplifying our business to cut the cost of delivery while improving customer experience.

This year we:
- completed a ‘civils insourcing trial’. As a result we’re now insourcing certain civils activities to improve customer experience;
- consolidated desk-based teams from over 400 locations down to 32 larger ‘centres of excellence’. This will better support the sharing of best practice and create better working environments; and
- cut the number of Ethernet orders awaiting completion by improving our operational processes.

Performance in the year – operating
This year we made our fibre network available to a further 1.1m premises. We achieved 1.8m fibre broadband net additions, with a total of 7.7m homes and businesses in the UK choosing to take a fibre service. We grew our Ethernet base by 1.3% and exceeded all the increased copper MSLs set by Ofcom.

External CPs accounted for 923,000 of the 1.8m fibre broadband net additions, an increase in share of 4% from last year, demonstrating the market-wide demand for fibre.

The physical line base decreased by 153,000 following a 29,000 increase the year before.

Investing in fibre
We keep investing heavily in our fibre network which now passes more than 26.5m premises nationwide.

This year we launched new ultrafast products for SMEs and business parks. Our FTTP network is the largest in the UK and we delivered more FTTP this year than in any previous year.

In May 2016 we launched our offer to connect fibre-to-the-premises for free to all developments of new sites with over 100 plots, then lowered the threshold to over 30 plots in November 2016.

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a This relates to our appeal to the Competition Appeal Tribunal of Ofcom’s BDDN market review decision – see page 40. "Other regulatory decisions and activities – Business connectivity market and cost attribution".

b Last year’s report stated a 2,000 line increase and this has been amended to include FTTP lines.

c New sites with over 30 plots registered from 10 November 2016.
Extending our reach
We’re still working in partnership with the BDUK programme to bring fibre broadband to communities who can’t currently access it, completing 39 of our 45 contracts this year. We’re also deploying our Superfast Extension Programme (SEP) in partnership with the Government.

We’re committed to working with local communities to deploy co-funded solutions under our Community Fibre Partnerships programme. To date we’ve worked with over 200 communities, and have over 100 more in the pipeline for upgrades.

In last year’s report we set out our top priorities for this year. In the table below we report back on what we’ve achieved.

Review of last year’s priorities

<table>
<thead>
<tr>
<th>WHAT WE SAID</th>
<th>WHAT WE DID</th>
</tr>
</thead>
<tbody>
<tr>
<td>We said we’d achieve our goal of 95% on-time installations by the end of December 2017, ahead of Ofcom’s minimum service level.</td>
<td>We’re on track to hit this RFT goal.</td>
</tr>
<tr>
<td>We said we’d work with Government to help take fibre broadband to 95% of the country by the end of December 2017.</td>
<td>We’ve made our fibre network available to another 1.1m premises this year, bringing the total to 26.5m across the UK.</td>
</tr>
<tr>
<td>We said we’d get ultrafast broadband to 10m premises, with an ambition of 12m, by the end of 2020.</td>
<td>We’ve built ultrafast broadband to 500,000 premises and have more than 98,000 customers, a 77% increase compared to last year.</td>
</tr>
<tr>
<td>We said we’d recruit 1,000 frontline engineers to deliver further improvements in service.</td>
<td>We recruited over 1,500 people, mostly engineers, to enable faster repairs and provide greater contingency. Around 250 of these new recruits were apprentices and graduates.</td>
</tr>
<tr>
<td>We said we’d work to deploy FTTP using microfibre technology.</td>
<td>We’ve introduced connectorised FTTP technology and halved the mean time to provide on our existing network this year.</td>
</tr>
</tbody>
</table>

Ofcom investigation into historical use of Deemed Consent
On 26 March 2017 Ofcom published the findings of its investigation into the historical use of Deemed Consent by Openreach. Deemed Consent is an agreed process between Openreach and its communications provider (CP) customers, which allows Openreach to halt the installation and reschedule the delivery date for providing dedicated business services (known as Ethernet) in a number of specific circumstances which are beyond its control. Ofcom found that Openreach had breached its contractual and regulatory obligations by inadequately and retrospectively applying Deemed Consent to reduce compensation payments to CPs between January 2013 and December 2014.

As a result of the findings, Openreach has agreed to compensate CPs and Ofcom has imposed a fine of £42m, reflecting the seriousness of the failings. This includes a 30% maximum discount for BT admitting its liabilities and agreeing to compensate the affected CPs in full. The precise amount of these compensation payments will result from discussions with the affected parties and is currently estimated at £300m. The fine and associated compensation payments are treated as a specific item charge in this year’s income statement, with the cash expected to be paid in 2017/18.

We take this matter very seriously and we’ve put in place additional controls to safeguard against this happening again and to make sure that we’re providing the highest standards in serving our customers.
Performance in the year – financial
Despite around £230m of regulatory price changes, we held revenue flat thanks to strong demand for fibre products.

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2017 £m</th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>5,098</td>
<td>5,100</td>
<td>5,011</td>
</tr>
<tr>
<td>Operating costs</td>
<td>2,465</td>
<td>2,441</td>
<td>2,414</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2,633</td>
<td>2,659</td>
<td>2,597</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>1,369</td>
<td>1,301</td>
<td>1,348</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,264</td>
<td>1,358</td>
<td>1,249</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>1,573</td>
<td>1,447</td>
<td>1,082</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>1,349</td>
<td>1,415</td>
<td>1,497</td>
</tr>
</tbody>
</table>

Revenue was flat (2015/16: 2% increase) with a 35% increase in fibre broadband revenue being offset by regulatory price drag which had an overall negative impact of around £230m, equivalent to 5% of our revenue.

Operating costs were up 1% (2015/16: 1%) reflecting the investment we made to deliver our copper minimum service levels, halve missed appointments by the end of the financial year and upskill our workforce. We also saw higher service level guarantee costs associated with the delay in fulfilling a number of older and more complex Ethernet orders.

EBITDA decreased 1% (2015/16: 2% increase). With depreciation and amortisation up 5% (2015/16: down 3%), operating profit was down 7% (2015/16: up 9%).

Capital expenditure was £1,573m, up £126m or 9% (2015/16: up £365m or 34%) reflecting our ongoing investment in fibre coverage and speed, and the delivery of more complex Ethernet circuits. This was after gross grant income of £159m (2015/16: £320m) directly related to our activity on the BDUK programme build and offset by the deferral of £185m of the total grant income (2015/16: £227m) due to strong levels of fibre broadband take-up. This is primarily because we increased our base-case assumption for take-up to 39% 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 5% (2015/16: 5% decrease) largely due to the timing of BDUK funding receipts and other working capital movements.

Priorities for the year ahead
Over the next 12 months, we’ll continue to invest in our fibre network and ensuring a great customer experience.

Our top priorities for 2017/18 are:

**Connecting Britain to the future**
- getting ultrafast broadband to 10m premises using G.fast and an ambition to reach a further 2m via FTTP, by the end of 2020; and
- working to deploy FTTP using microfibre technology.

**Delivering a great customer experience**
- achieving our RFT goal of 95% on-time installations by the end of 2017, ahead of Ofcom’s minimum service level; and
- recruiting 1,500 frontline engineers to deliver further improvements in service; and
- driving higher investment in fibre skills and growing our Fibre Academy.

**Working with Government and industry**
- working with the Government to support its objective for a Universal Broadband Commitment; and
- launching a consultation with industry to inform future FTTP planning.
Group performance
Group Finance Director’s introduction

Our results this year have been significantly impacted by the findings from our investigation into our Italian business, Openreach’s historical practices on Deemed Consent and the headwinds we face in the UK public sector and international corporate markets. The performance of our UK consumer, business and wholesale activities have been in line with our expectations and the integration of EE into the group is going well.

Our results for the year were below our expectations. We saw good performance from our UK consumer, business and wholesale activities but this was more than offset by what we found in our Italian business, Openreach’s historical practices on Deemed Consent and the headwinds we face in the UK public sector and international corporate markets.

Reported revenue increased by 27% to £24.1bn. Our key measure of the group’s revenue trend, underlying revenue excluding transit adjusted for the acquisition of EE, was down 0.2%.

Our investigation into our Italian business identified £268m of prior year errors, for which we revised the prior periods, and a specific item charge of £260m in the current year for changes in accounting estimates and investigation costs. We’ve also recorded a specific item charge of £342m following Ofcom’s investigation into Openreach’s historical practices on Deemed Consent. Our reported operating profit, which includes specific items, was down 12%. Our adjusted operating profit was up 8% reflecting a strong first year contribution from EE.

Reported profit before tax was down 19% to £2.4bn and adjusted profit before tax was £3.5bn, up 5%. Reported EPS of 19.2 pence was down 33% and adjusted EPS of 28.9 pence was down 9%.

Net cash inflow from operating activities was £6.2bn, up 20%, whilst normalised free cash flow was £2.8bn, down 10% which includes earlier than expected customer collections that will reverse next year.

In addition, we are also restructuring the Global Services organisation and accelerating ongoing transformation programmes in other lines of business. We anticipate that these transformation programmes will cost around £300m over the next two years, with most of this being incurred in 2017/18. This restructuring cost will be treated as a specific item and will payback in about 2 years.

For 2017/18, we continue to expect underlying revenue excluding transit to be broadly flat year on year and adjusted EBITDA to be in the range £7.5bn to £7.6bn.

Alternative Performance Measures

We assess the performance of the group using a variety of performance measures. These measures are not defined under IFRS and therefore termed ‘non-GAAP’ measures. A reconciliation from these non-GAAP measures to the nearest prepared measure in accordance with IFRS is presented on pages 252 to 254. The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

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Simon Lowth
Group Finance Director
11 May 2017

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* Excludes specific items, foreign exchange movements and disposals and is calculated as though EE had been part of the group from 1 April 2015.
* Before specific items, which are defined on page 252.
* Before specific items, pension deficit payments and the cash tax benefit of pension deficit payments.
Group performance
Summary financial performance for the year

Performance against our outlook
We did not achieve the financial guidance we set out at the beginning of the year. We were in line with the revised guidance we issued in January 2017.

2016/17 performance against our outlook
Reported revenue increased by 27% to £24.1bn. Underlying revenue excluding transit adjusted for the acquisition of EE was down 0.2%, below our original outlook of growth. This was in line with the outlook we revised in January of broadly flat.

Adjusted EBITDA grew 18% to £7.6bn. This was below our original outlook of approximately £7.9bn and in line with the outlook we revised in January.

Normalised free cash flow was £2.8bn, down 10% and below our original outlook, but almost £300m above our revised outlook, due to early customer collections that will reverse in 2017/18.

Outlook for 2017/18
Adjusted EBITDA
Normalised free cash flow
Dividend per share
Share buyback

a Defined on pages 252 to 254.

6% 27%
2% 28%
0% 2%

Adjusted EBITDA
Normalised free cash flow
Progressive
£100m

6% 27%
2% 28%
0% 2%

Adjusted EBITDA
Normalised free cash flow
Profit before tax
Adjusted profit before tax

4% 18%
3% 19%
0% 5%

Defined on pages 252 to 254.

a Certain prior year results have been revised to reflect the outcome of the investigation into our Italian business. See note 1 to the consolidated financial statements.
b Items presented as adjusted are stated before specific items. See page 252 for further details.
c Calculated as though EE had been part of the group from 1 April 2014. For 2016/17, no separate measure is shown as EE was part of the group for the full year and there is no difference to the adjusted measures.
d See definition on page 254 and summarised cash flow statement on page 96.
e Includes the impact of the £1.0bn equity placing we made in February 2015.
f Reflects the impact from EE.
For 2017/18, we continue to expect underlying revenue excluding transit to be broadly flat year on year. Adjusted EBITDA is expected to be £7.5bn - £7.6bn.

Our outlook for normalised free cash flow over the cumulative two year period 2016/17 and 2017/18 remains broadly unchanged. However, normalised free cash flow in 2016/17 of £2.7B2m was almost £300m above our outlook of around £2.5Bn, due to early customer collections that will reverse in 2017/18. As such, normalised free cash flow in 2017/18 is now expected to be £2.7Bn - £2.9Bn, from £3.0Bn - £3.2Bn previously.

This outlook is provided on the basis of our existing investment plans. However, we continue to evaluate a range of additional investment opportunities. Our decision on whether to move forward with these will be affected by a number of factors, including the outcome of Ofcom’s Wholesale Local Access Market Review, responses to Openreach’s consultations and the results of any future spectrum auctions.

Our underlying dividend policy remains unchanged: to deliver progressive dividends while balancing the need to invest in the business, support the pension fund and maintain a strong balance sheet. The Board has concluded that a dividend increase of 10% in 2016/17 remains appropriate. However, given the importance of maintaining flexibility for additional investment and the range of potential outcomes, dividend growth in 2017/18 will be lower than the 10% previously anticipated. The rate of future dividend growth will reflect a number of factors, including underlying medium term earnings growth, the level of investment spending and other cash commitments. The Board believes that this dividend policy appropriately balances the interests of all stakeholders and provides a solid foundation for future growth, underpinned by an ongoing commitment to investment that delivers sustainable long-term value for customers and shareholders.

We expect to buy back around £100m of shares in 2017/18 to help counteract the dilutive effect of all-employee share option plans maturing in the year. This is below the £206m buyback we completed in 2016/17 reflecting the lower number of shares that are expected to be required for our share option plans.

Transforming our costs
Our integration of EE is going well. We’ve achieved around £150m of run-rate cost synergies in our first year, exceeding our target of £100m, as we’ve been able to realise synergies earlier than originally planned. We continue to expect cost synergies to reach a run-rate of around £400m in the fourth year. We’ve delivered savings this year through renegotiating supplier terms and reducing the number of head office employees. We’ve also insourced a number of activities where possible, including all roaming management, EE Facilities management and core mechanical and engineering field operations.

We are also expanding and accelerating areas of our cost transformation programme. We are simplifying our central Group Functions and our internal service unit, Technology, Service & Operations to improve the effectiveness and efficiency of the services and infrastructure delivered to our lines of business. We are also restructuring the Global Services organisation and accelerating ongoing transformation programmes in other lines of business. We anticipate that these transformation programmes will save in total around £300m over two years, with a restructuring charge of around £300m over the next two years, with most of this being incurred in 2017/18. This restructuring cost will be treated as a specific item. These changes will clarify accountabilities, remove duplication and improve efficiencies, removing around 4,000 roles mainly from managerial and back office areas. The cost savings will provide headroom to offset market and regulatory pressures and support increased investment in delivering great customer experience and leading networks.

Prior year revision and re-classifications
Investigation into our Italian business
Our investigations into our Italian business revealed inappropriate behaviour and improper accounting practices. We identified £268m of errors in relation to prior years and a specific items charge of £260m in the current year for changes in accounting estimates and investigation costs.

Revised presentation of cash pooling arrangements
We’ve also revised the presentation of our cash pooling arrangement following the release of an IFRIC clarification on IAS 32 ‘Financial instruments presentation offsetting and cash pooling arrangements’ in April 2016. This requirement resulted in us grossing up cash and cash equivalents and short-term loans and other borrowings by £499m at 31 March 2016 and £414m at 31 March 2015 with no impact on the income statement.

EE purchase price accounting
Subsequent to our 29 January 2016 acquisition of EE, we’ve finalised our purchase price accounting within the period allowed under IFRS 3 ‘Business Combinations’. We also received £2Bm from the previous owners of EE as a result of the finalisation of the audit of the completion balance sheet. The changes after considering taxation resulted in an increase in goodwill of £29m as of 31 March 2016 with no material impact on the income statement.

The effect on prior years’ income statement, balance sheet and cash flow statements is set out in page 172 to 176 in note 1 to the financial statements.
Revenue

Reported revenue, which includes specific items, was up 27%. Adjusted revenue was up 28% at £24,082m. Both of these increases were driven by the impact of EE being part of the group for the full year.

We had a £522m positive impact from foreign exchange movements and a £64m reduction in transit revenue. Excluding these, underlying revenue excluding transit adjusted for the acquisition of EE was down 0.2% (2015/16: up 1.9%) which is consistent with our expectation of being broadly flat in the current year. This outlook was revised in our third quarter results following the challenging conditions in the UK public sector and international corporate markets and the impact of the issues in our Italian business.

Consumer revenue was up 7% with a 13% increase in broadband and TV revenue and a 4% increase in calls and lines. EE underlying revenue adjusted for the acquisition of EE was up 1% mainly due to the success of our ‘more for more’ pricing strategy. Openreach revenue was flat with the impact of regulatory price reductions offsetting the continued growth in fibre. Underlying revenue excluding transit adjusted for the acquisition of EE was down 3% in Wholesale and Ventures as a result of the continuing decline in Partial Private Circuits and call volumes. Business and Public Sector underlying revenue excluding transit adjusted for the acquisition of EE was down 2% and excluding revenue from our Italian business was 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

Reported operating costs were up 36% while adjusted operating costs before depreciation and amortisation increased 32%.

Our adjusted operating costs before depreciation and amortisation were £16,437m, up £4,017m (2015/16: £773m) driven by the acquisition of EE and adverse impact of foreign exchange. For the group, other operating costs were up £2,308m or 61%, primarily reflecting EE’s subscriber acquisition and retention costs, and adverse foreign exchange movements.
EBITDA
Adjusted EBITDA, which is before specific items, was £7.6bn which is in line with the 2016/17 outlook as revised in January.
Underlying EBITDA adjusted for the acquisition of EE was down 3%. This is mainly as a result of declines in UK public sector and our investment in improving customer experience.
You can see further details for EBITDA for the lines of business on pages 56 to 90.

Specific items
As we’ve explained on page 91, 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 to 31 March</th>
<th>2017 £m</th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italian business investigation (see page 6)</td>
<td>22</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Regulatory matters</td>
<td>(2)</td>
<td>(203)</td>
<td>(128)</td>
</tr>
<tr>
<td>EE fair value adjustment</td>
<td>–</td>
<td>70</td>
<td>–</td>
</tr>
<tr>
<td>Specific revenue</td>
<td>20</td>
<td>(133)</td>
<td>(128)</td>
</tr>
<tr>
<td>Specific operating costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory matters (see page 7)</td>
<td>481</td>
<td>203</td>
<td>75</td>
</tr>
<tr>
<td>Italian business investigation (see page 6)</td>
<td>238</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>EE acquisition and integration costs</td>
<td>215</td>
<td>116</td>
<td>19</td>
</tr>
<tr>
<td>Out of period irrecoverable VAT</td>
<td>30</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Profit on disposal of businesses (16)</td>
<td>–</td>
<td>(6)</td>
<td>–</td>
</tr>
<tr>
<td>Property rationalisation costs</td>
<td>–</td>
<td>29</td>
<td>45</td>
</tr>
<tr>
<td>Restructuring charges</td>
<td>–</td>
<td>–</td>
<td>315</td>
</tr>
<tr>
<td>Profit on disposal of property</td>
<td>–</td>
<td>–</td>
<td>(67)</td>
</tr>
<tr>
<td>Specific operating costs</td>
<td>948</td>
<td>348</td>
<td>381</td>
</tr>
<tr>
<td>Specific net finance expense</td>
<td>210</td>
<td>229</td>
<td>29</td>
</tr>
<tr>
<td>Profit on disposal of interests in associates and joint ventures</td>
<td>–</td>
<td>–</td>
<td>(25)</td>
</tr>
<tr>
<td>Tax credit (217)</td>
<td>(166)</td>
<td>(121)</td>
<td></td>
</tr>
<tr>
<td>Net specific items charged after tax</td>
<td>961</td>
<td>278</td>
<td>406</td>
</tr>
</tbody>
</table>

This year, specific items resulted in a net charge after tax of £961m (2015/16: £278m).

There was a net charge of £260m (2015/16: nil) arising from changes in accounting estimates regarding the carrying value of the assets and liabilities of our Italian business, including professional fees incurred.

We’ve recognised a net cost of £479m (2015/16: £nil) in relation to regulatory matters. These are made up of the following:
- Deemed Consent: A charge of £342m was recognised (2015/16: £nil) in relation to Ofcom’s March 2017 findings on our historical practices over the use of Deemed Consent. This includes a fine of £42m which has been imposed and we’ve also agreed to compensate Communication Providers, with the precise amount of the compensation to be determined but currently estimated at £300m.
- Re-assessment of other regulatory risks: We’ve also re-assessed our regulatory risks in light of recent regulatory decisions by Ofcom and the Competitions Appeals Tribunal. As a result we’ve increased our net provision by £137m (2015/16: £nil) in the year.
- Ladder pricing agreements: In 2016/17 we recognised revenue and costs of £8m (2015/16: £203m) being the prior year impacts of ladder pricing agreements with the other UK mobile operators.

We incurred £215m of EE integration costs (2015/16: EE acquisition-related costs £99m and integration costs of £17m). This includes a £62m (2015/16: £nil) specific amortisation charge relating to the write off of IT assets as we integrate the EE and BT IT infrastructure.

We recognised an out of period irrecoverable VAT charge of £30m during the year (2015/16: £nil) and a £1m interest expense. In addition to the above, we also treated a number of other items as specific, such as the net interest expense on pensions of £209m (2015/16: £221m). The decrease from 2015/16 mainly reflects a fall in the IAS 19 discount rate between 31 March 2016 and 31 March 2017.

We also recognised a tax credit of £63m (2015/16: £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 17% from 1 April 2020. The tax credit on specific items (excluding the re-measurement of deferred tax) was £154m (2015/16: £70m).

In 2015/16, we recognised a fair value adjustment on the acquisition of EE which reduced the amount of revenue recognised between acquisition and 31 March 2016.

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
Reported profit before tax (which includes specific items) was down 19% to £2,354m while adjusted profit before tax was up 5% at £3,532m, due to the contribution from EE.

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

Earnings per share
Reported earnings per share, which includes specific items, was 19.2p, down 33%, while adjusted earnings per share decreased 9% to 28.9p.

Adjusted earnings per share is one of our key performance indicators (see pages 20 and 21) and has decreased by 6% over the past two years. The graph below shows the key drivers of this decrease.

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4 Other primarily reflects the impact of the change in the weighted average number of shares.
Dividends
The Board is proposing a final dividend to shareholders of 10.55p, up 10%. This brings the full year dividend to 15.40p, also up 10%, and compares with an increase in the 2015/16 full year dividend of 13%.

This year’s dividend is in line with our outlook. It will be paid, subject to shareholder approval, on 4 September 2017 to shareholders on the register on 11 August 2017.

Dividends per share

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends per share</td>
<td>3.9</td>
<td>4.4</td>
<td>4.9</td>
</tr>
</tbody>
</table>

The Board has reviewed the group’s dividend policy and continues to believe that a policy of paying progressive dividends is the most appropriate. The Board believes this best aligns with the group’s financial objectives of growing sustainable profitable revenue growth and transforming the cost base in order to drive long-term growth in cash flows. In reaching this decision, the Board took into account forecasts for future debt reduction as well as the level of dividend cover expected over the medium-term.

BT Group plc has sufficient distributable reserves to support the dividend policy.

We’ve set out our dividend expectations for 2017/18 in our Outlook on page 92.

Cash flow
We generated a net cash inflow from operating activities of £6,174m and normalised free cash flow of £2,782m, down £316m or 10%, which is above our outlook as revised in January of £2.5bn for the year due to earlier than expected customer collections that we will now not receive next year.

Free cash flow
Normalised free cash flow decreased 10% to £2,782m, partly reflecting increased payments for the Premier League, UEFA Champions League and UEFA Europa League broadcast rights.

Free cash flow, which includes specific item outflows of £205m (2015/16: £232m) and a £110m (2015/16: £203m) tax benefit from pension deficit payments, was £2,687m (2015/16: £3,069m).

We made pension deficit payments of £274m (2015/16: £880m) and paid dividends to our shareholders of £1,435m (2015/16: £1,075m).

We spent £206m (2015/16: £315m) 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 £70m (2015/16: £90m).

Non-cash movements within net debt in the prior year 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 254.
**Capital expenditure**

We continue to make significant investments in line with our strategy including a focus on improving customer experience.

The Design Council is accountable to the Operating Committee for delivering an efficient and optimised investment plan, aligning investment decisions across our networks, systems, platforms and products so that they are directed towards our strategic priorities.

2016/17 is the first full year including EE. Capital expenditure therefore includes the investment EE is making to expand coverage, improve network speed and performance while continuing to offer innovative products and excellent customer experience. We’re also investing in the integration of EE into the wider group to drive both revenue and cost synergies.

For the year, our capital expenditure, inclusive of net grant deferral was £3,454m (2015/16: £2,622m, 2015/14: £2,317m). The table below shows the split of our investments by major category.

### Capital expenditure

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>151</td>
</tr>
<tr>
<td>2015/16</td>
<td>97</td>
</tr>
<tr>
<td>2016/17</td>
<td>119</td>
</tr>
</tbody>
</table>

- **Capacity/Network**
- **Customer Driven**
- **Infrastructure**
- **Systems/IT**

In recent years we’ve prioritised our capital expenditure to underpin our strategy to deliver sustainable revenue growth, and to expand coverage and capacity while enhancing speed and resilience of both our fixed access network and our mobile network. Key investments this year include:

**Capacity/network investments**

- increasing the footprint of our superfast fibre broadband network, including extending the reach of superfast broadband to rural areas under the BDUK programme. We’ve now passed more than 26.5m homes and businesses;
- the launch of our Ultrafast broadband trial now with 500K premises passed;
- enhancing and expanding our mobile network coverage, including the delivery of the ESN contract; and
- continued investment in convergence of fixed and mobile services.

**Customer driven investments**

- continued development of customer contract-specific infrastructure for our global clients; and
- deployment of Ethernet, including reduction in the existing workstack, and copper/fibre connections to homes and businesses.

**Systems/IT investments**

- improving customer experience by enhancing our online contact systems, order and repair journeys as well developing new products, such as our nuisance calls blocker.

**Non-network infrastructure**

- Investment in our property estate, including integration of EE and BT people into the same locations.

Capital expenditure was £3,454m (2015/16: £2,622m). This consists of gross expenditure of £3,432m (2015/16: £2,731m) which has been increased by net grant deferral of £28m (2015/16: £109m decreased by net grant funding) mainly relating to deferral of grant funding in the BDUK programme. This is driven by the base-case assumption for take-up in BDUK areas being increased to 39% of total homes passed following our review of the level of customer take-up. While we have recognised gross grant funding of £160m (2015/16: £338m) in line with network build in the year, we have also deferred £188m (2015/16: £229m) of the total grant funding to reflect higher take-up levels on a number of contracts. The increase in take-up assumption shows the high demand on our fibre network driven by customers taking advantage of faster speeds to consume more data. To date we have deferred £446m (2015/16: £258m).

Of the total group capital expenditure £69m (2015/16: £5m) related to the integration of EE. Additionally, £272m, (2015/16: £248m, 2014/15: £231m) arose outside the UK. Capital expenditure contracted but not yet incurred was £889m at 31 March 2017 (2015/16: £922m, 2014/15: £507m).

**Depreciation and amortisation**

Depreciation and amortisation has increased by 33% to £3,510m (2015/16: £2,631m, 2014/15: £2,538m) due to the inclusion of EE depreciation and amortisation for the full financial year.

**Net debt**

Net debt decreased by £906m to £8,932m, reflecting strong cash generation by the business.

We have achieved this while making investments for the future of our business including research and development, and sports and TV content, supporting our pension fund and funding our share buyback programme. We have also paid progressive dividends to our shareholders.

**Bond maturities**

Gross debt, translated at swap rates and excluding fair value adjustments, at 31 March 2017 was £10,980m. This comprises term debt of £9,680m, finance leases of £229m, bank loans of £350m, and other loans of £721m.

Bond maturities in June 2016, December 2016 and February 2017 resulted in a total cash outflow of £1,787m.

We have decreased our current investments and cash and cash equivalent by £1,866m, reflecting the funding of bond maturities and cash requirements of the business.
The table below shows the key movements in net debt over the past two years.

**Movements in net debt**

The impact of foreign exchange on net debt includes the impact of translation on finance leases, short-term borrowings, investments and cash balances. This also includes the benefit of translating our debt balances to Sterling at swap rates.
Financing and debt maturity
The main source of our cash inflow in recent years has been the cash generated from our operations.

We increased our undrawn revolving committed credit facility from £1.5bn to £2.1bn in June 2016. This facility has been extended by one year and will now mature in September 2021. In addition, we entered into a new 364-day revolving bridge facility of £1.5bn maturing in March 2018, with the option to renew to March 2019. The bridge facility contains mandatory prepayment and cancellation clauses in certain circumstances, such as the issuance of public debt securities. This facility was undrawn as at 31 March 2017.

In July 2016 the remaining £181m of the EE acquisition facility was repaid.

We have term debt of £1,399m, at swap rates, and other debt of £735m maturing in 2017/18.

Maturity profile of term debt and average coupon rate
At 31 March

<table>
<thead>
<tr>
<th>Year</th>
<th>£m</th>
<th>£m</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>5.7%</td>
<td>3.7%</td>
<td>4.3%</td>
</tr>
<tr>
<td>2019</td>
<td>5.7%</td>
<td>3.7%</td>
<td>4.3%</td>
</tr>
<tr>
<td>2020</td>
<td>3.8%</td>
<td>6.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2021</td>
<td>2.7%</td>
<td>6.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2022</td>
<td>2.7%</td>
<td>6.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2023</td>
<td>3.9%</td>
<td>6.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2024</td>
<td>9.2%</td>
<td>6.4%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2025</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2026</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2027</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2028</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2029</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2030</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2031</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2032</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2033</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2034</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2035</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2036</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2037</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
<tr>
<td>2038</td>
<td>6.4%</td>
<td>5.9%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

Net finance expense
Reported net finance expense has increased £92m to £804m. Adjusted net finance expense of £594m increased by £111m due to our average net debt being higher than last year as a result of our acquisition of EE.

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 reduced from 7.4% to 5.9% 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.

Net debt

<table>
<thead>
<tr>
<th>Year ended 31 March</th>
<th>2017 £m</th>
<th>2016 £m</th>
<th>2015 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average gross debt</td>
<td>12,217</td>
<td>9,030</td>
<td>9,007</td>
</tr>
<tr>
<td>Weighted average interest rate on gross debt</td>
<td>4.6%</td>
<td>5.4%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Average investments and cash balances</td>
<td>2,817</td>
<td>2,616</td>
<td>2,446</td>
</tr>
<tr>
<td>Weighted average interest rate on investments</td>
<td>0.3%</td>
<td>0.4%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Average net debt</td>
<td>9,400</td>
<td>6,414</td>
<td>6,561</td>
</tr>
<tr>
<td>Weighted average interest rate on net debt</td>
<td>5.9%</td>
<td>7.4%</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

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

Taxation
Our effective tax rate before specific items was 18.8% (2015/16: 18.1%). We paid income taxes of £551m (2015/16: £256m).

Our tax contribution
We are proud to be a major contributor of taxes to the UK economy. In 2016 we bore UK taxes of £893m and collected £2,085m of taxes. The One Hundred Group 2016 Total Tax Contribution Survey ranked us as the 5th highest contributor in the UK.

We paid UK corporation tax of £471m. We benefited from £117m of EE’s historical tax losses (2015/16: £20m) and £110m from tax deductions associated with employee pension and share schemes (2015/16: £208m).

Our approach to tax
We seek to ensure that our business develops in a tax-efficient manner that embodies our wider corporate purpose. In doing this we, comply with the tax rules of the countries where we do business and deal with their tax authorities in an open and constructive manner. We take the benefit of widely claimed tax incentives and apply OECD principles.

Tax governance
We maintain a limited appetite for tax risk by requiring a strong connection between tax planning and our business, and by requiring reasonably likely publicity to be neutral in nature. We seek out opportunities that meet these requirements where there is reasonable tax technical merit and we are confident that we can manage any organisational complexities.

We have a framework for managing taxes that is set centrally and agreed by the Board. We employ suitably qualified professionals to manage the operation of this framework, who report to the group finance director. Compliance with this framework is tested by our internal audit function.
**Group performance continued**

**Tax expense**
Our tax expense recognised in the income statement before specific items was £663m (2015/16: £607m). In addition we recognised a £445m tax credit (2015/16: tax charge of £235m) in the statement of comprehensive income, principally in relation to our pension scheme.

We expect our income statement effective tax rate before specific items to be around the UK rate of corporation tax, as the majority of our business occurs in the UK. In the current year, our rate is lower than this because we recognised tax credits in respect of historical overseas tax losses and prior period tax items.

The UK tax rate fell to 19% on 1 April 2017 and will fall to 17% on 1 April 2020, which should reduce our expected effective tax rate. Recognition of further deferred tax assets on historical overseas tax losses would also reduce our future rate. Changes to our estimates of uncertain tax positions may increase or reduce our future rate.

**Summarised balance sheet**
Our balance sheet reflects our significant 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. It also reflects the longer-term strategy with which we finance our investment, and our obligation to the pension fund.

<table>
<thead>
<tr>
<th>At 31 March</th>
<th>2017 £m</th>
<th>2016 £m</th>
<th>Movement £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant &amp; equipment, software and telecommunications licences</td>
<td>20,884</td>
<td>20,531</td>
<td>353</td>
</tr>
<tr>
<td>Goodwill and other intangible assets</td>
<td>10,643</td>
<td>10,890</td>
<td>(247)</td>
</tr>
<tr>
<td>Other non-current and current assets</td>
<td>3,067</td>
<td>2,288</td>
<td>779</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>4,195</td>
<td>4,196</td>
<td>(1)</td>
</tr>
<tr>
<td>Investments, cash and cash equivalents</td>
<td>2,048</td>
<td>3,914</td>
<td>(1,866)</td>
</tr>
<tr>
<td><strong>Total assets</strong>&lt;sup&gt;6&lt;/sup&gt;</td>
<td>40,837</td>
<td>41,819</td>
<td>(982)</td>
</tr>
<tr>
<td>Loans and other borrowings</td>
<td>(12,713)</td>
<td>(14,761)</td>
<td>2,048</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(7,437)</td>
<td>(7,418)</td>
<td>(19)</td>
</tr>
<tr>
<td>Other current and non-current liabilities</td>
<td>(2,398)</td>
<td>(2,288)</td>
<td>(110)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(1,161)</td>
<td>(743)</td>
<td>(418)</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>(1,240)</td>
<td>(1,262)</td>
<td>22</td>
</tr>
<tr>
<td>Pensions, net of deferred tax</td>
<td>(7,553)</td>
<td>(5,235)</td>
<td>(2,318)</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>(32,502)</td>
<td>(31,707)</td>
<td>(795)</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>8,335</td>
<td>10,112</td>
<td>(1,777)</td>
</tr>
</tbody>
</table>

<sup>6</sup> Revised. See note 1 to the consolidated financial statements.

<sup>6</sup> Excluding deferred tax asset relating to BT’s defined benefit pension schemes.

We have booked a tax benefit of £39m in respect of UK patent incentives (2015/16: £37m). We do not expect this to be affected materially by the OECD’s Base Erosion and Profit Shifting project.

**Key tax risks**
Our key uncertainties are whether EE’s tax losses will be available to us, whether our intra-group trading model will be accepted by a particular tax authority and whether intra-group payments are subject to withholding taxes.

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 £270m relating to tax losses on our balance sheet. This relates mainly to historical tax losses acquired with EE. We expect to be able to use this against future profits of EE.

In addition we have £4.2bn of income tax losses that we’ve not given any value to on our balance sheet. We might be able to use these losses to offset future profits, however we currently do not consider this probable. We also have £17.0bn of UK capital losses, which we have no expectation of being able to use.

We’ve given more details in note 9 to the consolidated financial statements.
BT Group plc

The BT Retirement Saving Scheme (BTRSS) is a contract-based, EE operates the EE Pension Scheme (EEPS), which has a defined benefit section that is closed to future accrual and a defined contribution arrangement operated by Standard Life. This is the current arrangement for UK employees who joined BT after 1 April 2001. It has around 32,500 active members, 199,500 pensioners and 64,000 deferred members.

The BTRSS and EEPS are managed by separate and independent Trustee bodies while savings in the BTRSS are managed directly by members.

Details of the governance of the BTPS, its financial position and the performance of its investments are available in the BTPS Annual Report published by the Trustee in December 2016, 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 is 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 and March 2017.

Accounting position under IAS 19

The accounting deficit, net of tax, rose over the year from £5.2bn to £7.6bn. The movements in the deficit for the group’s defined benefit plans are shown below.

<table>
<thead>
<tr>
<th>Movement in IAS 19 deficit</th>
<th>£bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit at 1 April 2016</td>
<td>(5.2)</td>
</tr>
<tr>
<td>Operating charge</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Net finance cost</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Regular contributions</td>
<td>0.3</td>
</tr>
<tr>
<td>Deficit contributions</td>
<td>0.3</td>
</tr>
<tr>
<td>Actuarial gain/loss</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Deferred tax asset</td>
<td>7.5</td>
</tr>
<tr>
<td>Net of deferred tax asset</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Deficit at 31 March 2017</td>
<td>(7.6)</td>
</tr>
</tbody>
</table>

Net of deferred tax asset
Defered tax asset

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 £38m as outlined in note 16 to the consolidated financial statements.

Trade and other receivables decreased by £1.1m to £4,195m while trade and other payables of £7,437m were £19m higher. Despite these movements, the unwindings of the effects of improper working capital transactions in our Italian business resulted in a working capital outflow of £382m. Investments, cash and cash equivalents, loans and other borrowings are reconciled to net debt of £8,932m in note 25 to the consolidated financial statements. We’ve discussed net debt on pages 97 to 98.

Provisions increased by £418m to £1,161m mainly due to an increase in regulatory provisions which was treated as a specific item. We have a significant property portfolio which includes both office buildings and former telephone exchanges (see page 31). Property provisions, which mainly comprise onerous lease provisions, amounted to £292m. There are also asset retirement obligations of £83m relating to leased mobile sites forming part of the EE network. 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, increased by £2.3bn to £7.6bn and are discussed below. Equity has deteriorated compared with the prior year due to the actuarial losses relating to retirement benefit obligations, being more than the profit for the 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 32,500 active members, 199,500 pensioners and 64,000 deferred members.

– The BT Retirement Saving Scheme (BTRSS) is a contract-based, defined contribution arrangement operated by Standard Life. This is the current arrangement for UK employees who joined BT after 1 April 2001. It has around 32,500 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 11,000 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 BTPS and EEPS are managed by separate and independent Trustee bodies while savings in the BTRSS are managed directly by members.

Details of the governance of the BTPS, its financial position and the performance of its investments are available in the BTPS Annual Report published by the Trustee in December 2016, 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.
The actual investment return in the year to 31 March 2017 of around 21% was higher than the discount rate assumption at 31 March 2016 of 3.30%, leading to a reduction in the deficit recognised as a remeasurement in other comprehensive income. The return reflects strong asset performance across all asset classes, in particular equities and government bonds which increased by c16% and c23% respectively.

The actuarial losses on liabilities in 2016/17 primarily reflect a fall over the year in the real discount rate from 0.44% to 0.78%.

**Contractual obligations and commitments**

We’ve shown in the table below our principal contractual financial obligations and commitments at 31 March 2017. You can see further details on these items in notes 20, 25 and 30 to the consolidated financial statements.

<table>
<thead>
<tr>
<th>At 31 March 2017</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>12,334</td>
<td>2,618</td>
<td>2,756</td>
<td>1,281</td>
<td>5,679</td>
</tr>
<tr>
<td>Finance lease obligations</td>
<td>229</td>
<td>14</td>
<td>24</td>
<td>26</td>
<td>165</td>
</tr>
<tr>
<td>Operating lease obligations</td>
<td>7,160</td>
<td>650</td>
<td>1,168</td>
<td>1,037</td>
<td>4,305</td>
</tr>
<tr>
<td>Capital commitments</td>
<td>889</td>
<td>811</td>
<td>77</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>Other commitments</td>
<td>367</td>
<td>231</td>
<td>127</td>
<td>9</td>
<td>–</td>
</tr>
<tr>
<td>Device purchase commitments</td>
<td>423</td>
<td>423</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Programme rights commitments</td>
<td>2,644</td>
<td>–</td>
<td>641</td>
<td>1,405</td>
<td>598</td>
</tr>
<tr>
<td>Pension deficit obligations</td>
<td>7,686</td>
<td>710</td>
<td>1,460</td>
<td>1,410</td>
<td>4,106</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>31,732</td>
<td>5,457</td>
<td>6,253</td>
<td>5,168</td>
<td>14,854</td>
</tr>
</tbody>
</table>

<sup>a</sup> Excludes fair value adjustments.

We have unused committed borrowing facilities totalling £3.6bn. We expect that these resources and our future cash generation will allow us to settle our obligations as they fall due.

**Adoption of IFRS 15 ‘Revenue from Contracts with Customers’**

IFRS 15 ‘Revenue from Contracts with Customers’ will be effective for BT on 1 April 2018. We are planning to adopt this new standard retrospectively, applying it to each prior reporting period presented in our 2018/19 financial statements, namely 2016/17 and 2017/18. On adoption in 2018/19, this will require a cumulative transitional adjustment at 1 April 2016. We are still in the process of quantifying the implications of this standard and the financial impact is not yet reasonably estimable, but we anticipate that the resulting accelerated revenues and deferred costs are likely to significantly exceed deferred revenues, and there will be a resulting cash tax impact in 2018/19 and 2019/20.

More detail over our approach to this new standard as well as others is outlined in note 1 to the consolidated financial statements.