

BT GROUP PLC
Form 6-K
May 24, 2018
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act 1934

Report on Form 6-K dated May 24, 2018

BT GROUP PLC

(Translation of registrant's name into English)

BT Centre

81 Newgate Street

London EC1A 7AJ

England

Edgar Filing: BT GROUP PLC - Form 6-K

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

Enclosure: BT Group plc Annual Report & Form 20-F 2018 as sent to shareholders

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BT Group plc

By: /s/ Dan Fitz
Name: Dan Fitz
Title: Company Secretary

Date: May 24, 2018

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Where to find
more information

btplc.com

bt.com/annualreport

Delivering our Purpose Report

We're using the power of
communications to make a
better world. That's our purpose.

Read our annual update.

btplc.com/purposefulbusiness

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Welcome to BT Group plc's

Annual Report & Form 20-F for 2018

This is the BT Annual Report for the year

ended 31 March 2018. It complies

with UK regulations and is part of the

Annual Report and Form 20-F for the

US Securities and Exchange Commission

to meet US regulations.

Throughout the report

look out for these:

Reference to other pages

within the report

Reference to further
reading online

Critical accounting
estimates and key
judgements

This Strategic Report was
approved by the Board on
9 May 2018

By order of the Board

Dan Fitz

Company Secretary

9 May 2018

Please see the cautionary statement regarding forward-looking statements on page 296.

Pages 1 to 130 form the Strategic Report. It includes Our strategy, Our business model, Our risks, the Operating review and the Group performance section.

The Governance section on pages 131 to 188 forms the Report of the Directors.

The Strategic Report

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A welcome from our Chairman

My first impressions of BT are that we have great strength in our assets, people and capabilities, and this positions us well to deal with the challenges and opportunities ahead. It is important that we maintain our market leadership and play our part in supporting the UK as a world-class digital economy. As chairman I intend to support our people, engage with our stakeholders collaboratively, and build an even stronger reputation for our company.

Strong first impressions

I am honoured to be chairman of your company, BT.

I would like to take this opportunity to thank my predecessor, Sir Mike Rake, for his ten years of outstanding service to BT. I also want to thank the many people at BT who have made me feel so welcome.

BT is well positioned; we are leaders in fixed and mobile networks, in both our consumer and enterprise markets. We have four powerful brands, and we are financially robust. We have great people with wide-ranging skills and a healthy culture.

That said, this is a complex business; we operate in some tough markets and we have significant challenges ahead. For instance, volume growth in many of our markets is slowing, and we face increasing competition in our consumer, business and wholesale operations.

Initial priorities

It is important to me that we secure investment in integrated networks, the digital infrastructure of the future, and maintain a relentless focus on improving the experience of our customers.

We need to continue to play our part to ensure the UK remains one of the world's leading digital economies. This requires us to invest in new technologies and opportunities; in fibre-to-the-premises (FTTP), 5G, cybersecurity and the Internet of Things.

It is also vital to continue to invest in our people to make sure we have the right skills to take our company forward. In 2017/18, we hired almost 2,400 new engineers in Openreach, and more than 2,500 apprentices and graduates.

At BT we have always looked after our people. My future focus will be to ensure we have a culture that rewards innovation, teamwork, customer orientation, and bold decision making.

And I want to make sure we give customers exemplary service. We have made significant improvements in customer experience across the group, but

we are still not where we need to be. This is not just about speed, coverage, or value for money; it is about giving customers the best possible experience when dealing with BT so that they become advocates for our company.

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I also believe an important part of my role will be to enhance the reputation of BT. In particular, it is critical that we build and maintain constructive and trusted relationships with government and the regulator.

Key achievements

Your company took a number of significant steps in 2017/18.

We announced a large-scale FTTP deployment, and achieved 90% geographic coverage with 4G. We obtained a good allocation of 3.4GHz spectrum as part of our overall planning for 5G.

We launched ultrafast broadband products with minimum speed guarantees, and we secured another three years of Premier League football at lower cost. We entered into a supply arrangement with Sky that ensures our TV customers will enjoy the best possible content.

We have increasing clarity on key aspects of regulation, with the completion of the wholesale local access market review, the decision by the regulator not to mandate a dark fibre product for the time being, and with the implementation of a new governance structure for Openreach. After a detailed consultation process, and in agreement with our pension scheme members and their unions, we closed the defined benefit pension scheme to further accrual, whilst increasing the company's contribution rates to our main defined contribution pension scheme. In May we also reached agreement with the pension trustee on the 2017 triennial valuation and recovery plan, giving us certainty over the contributions we need to make to support the fund for the next three years.

And we used technology to support communities and society. Under our 2020 ambitions, we work to promote digital inclusion and build skills for the next generation. This year we also helped to raise around £109m for good causes.

Capital allocation and the transformation ahead

Connectivity today sits at the centre of most people's lives and has become critical to homes and businesses alike. Consumption of data and bandwidth continues to expand at ever increasing rates, and at the same time technology continues to evolve as we move from copper to fibre, from 4G to 5G and from analogue to digital.

As the UK's incumbent provider we are determined to lead this transition from old to new technologies, but in order to do so our strategy will need to evolve to provide ever greater focus on our customers' experiences, and on network

investment, whilst transforming our operating model to become a lean and agile organisation.

We have a comprehensive transformation programme in place to improve our operational and financial performance in what remains a competitive market environment, and we are increasing our investment to drive convergence and sustain our network leadership. We are confident in our strategy and the benefits we expect from the decisive actions we are taking to strengthen our competitive position.

Given the current market and regulatory headwinds and our investment plans, the Board has decided to hold the dividend unchanged for this year at 15.4p per share. The Board also expects to hold the dividend unchanged in respect of the next two financial years, given our outlook for earnings and cash flow over this period.

The Board remains committed to our dividend policy, which is to maintain or grow the dividend each year, whilst reflecting a number of factors including underlying medium term earnings expectations and levels of business reinvestment.

Board changes

Karen Richardson and Tony Ball will step down from the Board at the conclusion of the Annual General Meeting in July, having served as non-executive directors for six and nine years respectively. I would like to thank Karen and Tony for their significant contribution during their time at BT. We have begun the process of finding successors to Karen and Tony and have appointed external consultants to assist with the search process.

Looking to the future

I am delighted to be working with Gavin, and I know I have the support of a first-class Board. I am also confident we have the right leadership team in place to take our business forward and meet the challenges we face in the years ahead.

The Board has full confidence in the transformation programme that we have put in place. We believe that successful execution of our evolved strategy will serve the long-term interests of all our stakeholders and will ensure that we play our part in keeping the UK a leading digital economy.

Above all, we are confident that it will allow us to build trust and confidence and drive sustainable growth in value for our shareholders.

Jan du Plessis

Chairman

9 May 2018

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A message from our Chief Executive

In a challenging year we have delivered on our strategy, made important investments for the future, competed effectively in the marketplace, and made great improvements to the experience we deliver to our customers. Our operational and financial results were overall broadly in line with expectations. We will accelerate our transformation with a three-year plan, and I remain tremendously optimistic about the future for our company and its stakeholders.

Robust business performance in a tough environment

The market environment got tougher in the last year. Volumes have slowed in our consumer businesses, as the markets for broadband, pay-TV and mobile subscribers reach maturity. Our customers responded well to our more for more strategy which focuses on value versus volume as customers upgrade to fibre and 4G.

In our enterprise operations, customers are seeking shorter, more flexible contracts and more digital solutions. Openreach has come under pressure from regulation. Competition from new entrants as well as established players remains intense wherever we operate.

Against this, we recorded financial results overall broadly in line with expectations. BT is extremely well positioned in all of its markets; we have met the challenges and taken opportunities in a disciplined way.

Delivering our strategy in 2017/18

Here's how we delivered against the three pillars of our strategy.

Deliver great customer experience. In 2017/18 we drove the best improvements in our customer metrics for many years. At the group level NPS (Net Promoter Score) was up by 8.3 points and RFT (Right First Time) was up by 4.3%. We reduced network faults by 3.7%, cut installation times for key products like Ethernet (by a third), and installed a record 2.1 million fibre broadband net connections. In BT Consumer we've reduced call waiting times by a minute and complaints to Ofcom about consumer broadband have fallen by 18%. At EE we now cover significantly more of the UK's geography with 4G than any other operator, and we are delighted to have been found by RootMetrics to have the highest quality network, winning the UK Overall RootScore award for the ninth consecutive time. While we are proud of these achievements, we know there is much more still to do.

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Invest for growth. We made significant investments across the business in 2017/18. In Openreach we've started the rollout of ultrafast broadband delivering speeds of over 100Mbps with the announcement of the accelerated deployment of FTTP to three million homes by 2020, accompanied by a rapid rollout of Gfast. We believe we will make a return on this initial programme and we want to go further to reach 10 million premises by the mid 2020s, although this will depend on support from the Government and the regulator.

In BT Consumer we have invested to improve customer experience, and also to secure the best possible content for our BT Sport and TV customers. Our continued investments in EE have positioned us as the pre-eminent UK mobile operator, including in network coverage, store formats and online. In our enterprise businesses we've continued to invest to reposition our product set based on digital solutions, unified communications and our mobile capabilities. And our investment in many of our ventures is leading to impressive growth.

Looking ahead, we will continue to invest to secure growth in the medium term. This will include investment in our integrated fixed and mobile networks, fibre, 4G and eventually 5G, and investment to make our network, operations, and product set increasingly digital and converged.

Transform our costs. We have delivered on our existing cost-saving initiatives. Our restructuring programme has removed over 2,800 roles and delivered £180m of savings during the year. And we made good progress with our pension fund. The steps we took include closing the defined benefit scheme to new accruals and agreeing the triennial funding valuation and recovery plan with the Trustee.

Accelerating our strategic transformation

Our performance in 2017/18 has created a platform and position of strength from which to begin the next phase of our strategic transformation. We need to accelerate the process in order to meet the challenges ahead.

We have updated our strategy and will implement a new three-year plan, which we will deliver through three strategic priorities:

delivering differentiated customer experiences

investing in integrated network leadership

transforming our operating model.

We will create innovative new propositions, improve value for money, offer better service and make it easier to do business with us.

In UK fixed, we will speed up our investments in ultrafast and in UK mobile we will expand our leadership in 4G coverage and capacity. We intend to lead the market to 5G too.

We are creating a more lean, agile and flexible organisation with a simpler operating model. We have already brought together BT Consumer and EE to form Consumer to be managed and operated as one, with a new set of converged products. And now we are combining our Business and Public Sector and Wholesale and Ventures units to create Enterprise. These are positive changes, designed to transform BT for the next chapter of its history.

We also need to make sure we have the right blend of skills for the challenges and opportunities ahead. We recently announced the creation of 6,000 new roles in frontline engineering, customer service and cybersecurity. More difficult has been the decision to remove 13,000 roles; largely from middle management and back-office functions. We are also rationalising the number of our sites including plans to exit BT Centre in London.

And we will accelerate the delivery of digital Global Services, by focusing on the leading multinational customers, standardising solutions, strengthening our security services, enhancing our cloud solutions, and divesting non-core assets.

My thanks, and an exciting future

I believe BT is a strong business that is well placed to continue to lead the UK communications market, in converged connectivity and services. The plans we are implementing will ensure our company is more efficient, incrementally productive, equipped with the right skill sets, and better able to meet the challenges and capitalise on the opportunities that lie ahead. Ultimately, we will be able to offer our customers the products and services they deserve.

And, following a number of additions to my *Executive Committee* in the year, I am confident I have a strong leadership team ready to deliver on our transformation programme.

I would like to thank everyone at BT for everything they have delivered over the last year and for their support as we implement the next phase of BT's transformation.

Gavin Patterson

Chief Executive

9 May 2018

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How we re organised

BT operates as a single business, made up of different organisational units.

There are two types of

organisational unit in BT:

customer-facing ones that

sell products and services and

corporate ones that support

the whole of the group.

Customer-facing units

The customer-facing units (CFUs) in the year were:

BT Consumer

P72

EE

P80

Business and Public Sector

P86

Global Services

P92

Wholesale and Ventures

P98

Openreach

P104

New Consumer business

In July 2017 we announced the creation of a new Consumer business bringing together BT Consumer and EE.

BT Consumer and EE operated separately during the year (which is why they have separate sections in this Annual Report) but in September the management team came together under Marc Allera to develop the integration plans for the new business.

Consumer will report as a single business from April 2018.

New Enterprise business

In April 2018 we announced the creation of a new customer-facing unit called Enterprise. It will bring Business and Public Sector and Wholesale and Ventures into one team. It will mean we can make faster, better decisions for the benefit of all our business customers across the UK and Ireland.

The new unit will provide products and services to small-to-medium sized businesses, corporates and the public sector.

It will also provide wholesale services to communications providers in the UK and Republic of Ireland. And it will include

our Ventures business.

Enterprise is being led by Gerry McQuade (from 1 May 2018)
and will start reporting as a single business from 1 October 2018.

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Global Services

Global Services is a leading business communications provider with customers in 180 countries.

Digital GS is Global Services' strategy to become a more profitable, predictable and customer-focused business. (see page 93).

Openreach

Openreach builds and operates the fixed access network that connects Britain's homes and businesses.

Its customers include hundreds of communications providers in the UK.

Openreach is different to the other CFUs because it is strategically and operationally independent from the rest of BT, in line with the agreement reached with Ofcom, following its strategic review of digital communications (see page 52).

Corporate units

Technology, Service and Operations (TSO)

TSO is our technology delivery unit responsible for creating and operating our global networks, platforms and IT systems.

It also works with the CFUs to develop and roll out products and services for their customers. You can read more about TSO on page 114.

Strategy and Transformation (S&T)

S&T develops and sets corporate, network and product strategies for the group.

It also drives pan-BT transformation programmes. S&T is being led by Michael Sherman (from 1 May 2018).

Corporate functions

The remaining corporate units carry out central activities on behalf of the group.

We benefit from shared expertise and economies of scale. They include: Finance; HR; Legal; Governance; Compliance; Corporate Affairs; Regulatory Affairs; and Central Business Services.

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Executive Committee

This is our *Executive Committee*. It meets weekly and is chaired by the chief executive.

The *Executive Committee* provides input and recommendations to support the chief executive (or his delegate) in exercising their authority delegated by the Board to run the business of the group day to day.

More specifically, the *Executive Committee* assists the chief executive in:

developing the group strategy and budget for the Board's approval

executing the strategic plan once agreed by the Board

providing assurance to the Board in relation to overall performance and risk management.

All decisions are taken by the chief executive, or his delegate, in keeping with the principle of single point accountability.

Luis Alvarez, formerly CEO Global Services; John Petter, formerly CEO BT Consumer; and Sean Williams, formerly chief strategy officer left during the year. Graham Sutherland, formerly CEO Business and Public Sector will leave in 2018/19.

Bas Burger, Cathryn Ross, Sabine Chalmers and Michael Sherman have all joined the *Executive Committee*.

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.

Gerry McQuade

CEO, Enterprise

Appointed CEO, Wholesale and Ventures in March 2016 and became CEO, Enterprise in May 2018.

Gerry was formerly chief sales and marketing officer at EE responsible for the business, wholesale and product development which he had overseen since the merger in 2010 of Orange and T-Mobile. He joined the board of Orange in January 2008, and prior to Orange he was founding director of Virgin Mobile.

Alison Wilcox

HR director

Appointed July 2015.

Alison was formerly regional HR director for Vodafone Europe and before that, Regional HR Director for Vodafone's Africa, Middle East and Asia Pacific footprint. Alison joined Vodafone in 2006 as group director of leadership following a career in consulting.

Simon Lowth

Chief financial officer

Appointed to the Board as chief financial officer in July 2016.

Simon was CFO and executive director of BG Group before the takeover by Royal Dutch Shell in February 2016. Previously Simon was CFO and an executive director of AstraZeneca, and an executive director of ScottishPower. Prior to that, Simon was a director of McKinsey & Company.

Ed Petter

Corporate affairs director

Appointed November 2016.

Ed was formerly deputy director of corporate affairs at Lloyds Banking Group and prior to that had held corporate affairs roles at McDonald's Europe, McKinsey & Company and the Blue Rubicon communications consultancy, having previously worked as a news producer and editor at the BBC.

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Marc Allera

CEO, Consumer

Appointed February 2016 as CEO, EE and became CEO, Consumer in September 2017.

Marc was formerly chief commercial officer for EE from 2011 to 2015. Before 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.

Bas Burger

CEO, Global Services

Appointed June 2017.

Bas was formerly president, BT in the Americas, BT Global Services. Bas joined BT in 2008 as CEO Benelux.

Before joining BT, Bas was executive president and a member of the management committee of Getronics NV, where he ran global sales, channels and partnerships, developing the company's international business. He was also CEO and managing director of KPN Entercom Solutions.

Sabine Chalmers

General counsel

Appointed April 2018.

Sabine joined BT in April 2018. Before joining BT she was chief legal and corporate affairs officer and company secretary of Anheuser-Busch InBev for 12 years. She also held various legal leadership roles at Diageo. Sabine is qualified to practise law in England and NY State.

Cathryn Ross

Director of regulatory affairs

Appointed January 2018.

Michael Sherman

Chief strategy and transformation officer

Appointed May 2018.

Howard Watson

Chief technology and information officer

Appointed February 2016.

Cathryn was formerly chief executive of Ofwat, the independent economic regulator for the water and waste water sector in England and Wales. Cathryn is an experienced regulatory and competition economist and has worked across a number of different sectors advising on economic, regulatory and competition issues.

Prior to joining BT, Michael was partner and managing director at Boston Consulting Group, focusing on advising clients on growth strategies and operational efficiency. Before that, he spent nearly eight years as executive vice president at enterprise software company Viewlocity.

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 Cartesian, a telecommunications consultancy and software company.

Dan Fitz

Company secretary

Dan is the company secretary of BT Group plc. He joined BT in April 2010 as its group general counsel and was appointed company secretary in November 2012. Dan previously spent six years at Misys and 12 years at Cable & Wireless. Dan attends all

Executive Committee meetings.

Clive Selley

Invitee, CEO, Openreach

Clive was appointed CEO, Openreach in February 2016. He was formerly CEO, BT Technology, Service & Operations, CEO BT Innovate & Design and before that president, BT Global Services Portfolio & Service Design. He is an invitee because the CEO of Openreach cannot be a member of the *Executive Committee* under the provisions of the Undertakings and Commitments.

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Our strategy

Our strategy in the year had three pillars: deliver great customer experience, invest for growth and transform our costs.

They work together: the better our customers' experience, the more we sell and the less time and money we 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.

Pages 21 to 25 describe our performance against the strategy.

Looking ahead, we're evolving our strategy to build on our strengths and allow us to respond to market opportunities and challenges. You can find more detail on page 28.

The graphic below shows the main elements of our strategy in the year. You'll find more details on our purpose and goal, in the context of our business model, on page 32.

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Our strategy - how we performed

Customer experience remains central to our strategy and long-term growth – whether that’s improving our service levels, providing a more reliable network or introducing new products. We’re making good progress but we know there is still much more to do.

We believe that continuously improving customer experience drives growth. That’s why progress on customer experience is central to judging the group’s performance. We have two main measures of customer experience: customer perception (based on Net Promoter Score) and doing things Right First Time.

How we did in the year

We’ve built on earlier progress and have delivered seven quarters of continuous growth in customer perception. This year we saw an 8.3 point improvement on last year’s result.

Right First Time performance has improved by 4.3%, helped by better planning and resourcing. This means our network has had fewer faults and we’ve delivered high levels of service despite some terrible weather.

Everyone in BT has a role to play in delivering these results and every CFU has improved its customer perception and Right First Time scores.

We’ve also seen a drop in complaints made to Ofcom over the last year. EE saw complaints fall to their lowest level while complaints about BT Consumer broadband have fallen by 18%.

What difference did our customers see?

Our customers tell us they expect a reliable service, great networks and products that fit their digital, mobile and always-on lives. We’ve made progress in all of these areas:

Deliver a consistent and reliable service

On average we answered calls from BT Consumer customers in 41 seconds, a minute quicker than last year.

EE won the What Mobile award for Best Customer Support for the third year running.

We now have more than 600 EE shops including five new showcase stores offering face-to-face chats with advisers and highlighting the best of our network and technology partners.

Our customers are using our digital channels more, with online chat up 20% this year and more than 2m downloads of the My BT app.

Openreach achieved all 60 of Ofcom's copper Minimum Service Levels.

Ethernet performance keeps improving with delivery times cut by a third since last year.

We're continuing our transparent approach to performance by publishing quarterly updates on service levels via bt.com and ee.co.uk.

Great customer experience from our network

We've hired almost 2,400 more engineers into Openreach. We've also improved our resource planning so that we meet network repair targets more than 80% of the time.

We've continued to weatherproof our networks leading to 3.7% fewer network faults this year.

BT Consumer customers are now getting faster broadband speeds with average download speeds improving by 20% to 43Mbps.

Products that fit our customers' lives

BT Consumer launched ultrafast products at 152Mbps and 314Mbps with minimum speed guarantees.

EE launched a new 4G antenna service that brings superfast broadband speeds to rural areas where fixed broadband is slow or not available.

A year after the launch of our BT Call Protect service we've protected 2.5m customers by diverting more than 90m nuisance calls.

And we've launched a new BT Business app for business customers who want to interact with us digitally.

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Our strategy - How we performed continued

We've been putting money and resources into five strategic areas. Together, they underpin our strategy and our operational and financial performance, which in turn contribute to our KPIs (on page 24).

With good progress on the integration of EE within the group and with a fast-paced digitisation of the UK economy, we've placed a particular focus this year on enabling convergence and on infrastructure leadership as key drivers of future growth.

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Our approach

Rigorous analysis, leadership and strong governance help us stay focused on both transforming costs and improving customer experience.

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

Most improvement initiatives are owned and run within individual business units. Our largest programmes span multiple business units or drive complex changes in a single business unit and often need central coordination.

How we did in the year

This year we've increased the cumulative EE integration savings to £290m and we're on track to deliver on our £400 million commitment by the end of 2019/20.

The first phase of our restructuring activities has produced £180m of savings against our commitment to deliver £300 million over two years.

Key achievements included:

creating more synergies from integrating BT and EE. We've done this by combining functions, making good use of our increased purchasing power, and completing accommodation moves to bring teams together and save money from closing unneeded buildings

establishing a new unit, Customer and Enterprise Transformation, within the Strategy and Transformation team. The new unit helps us make investments and take decisions that better support our customer experience and productivity priorities

becoming even more efficient by creating a Central Business Services unit which brings together customer contact management services, contract delivery services, revenue assurance and billing.

Looking ahead

We will continue to deliver against our EE integration and first phase restructuring commitments.

We're also launching new cost transformation initiatives within each individual business unit, as well as some larger cross-business programmes.

The combination of new and existing initiatives will ensure we deliver against our new strategic target of £1.5bn gross cost reduction over the next three years.

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Key performance indicators

We hit our financial guidance set in May 2017 for adjusted EBITDA and exceeded it for normalised free cash flow. We fell short of our target for underlying revenue excluding transit due to demanding market conditions and actions we have taken to exit lower margin business in our enterprise divisions. We've achieved our customer experience goal for the year, but want to go further.

Underlying revenue excluding transit

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, acquisitions and disposals. 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.

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; 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 156).

Our key measure of the group's revenue trend, underlying revenue excluding transit was down 1.0% (2016/17: down 0.2%) which is below our outlook of broadly flat.

-1.0%

2018 trend in underlying revenue excluding transit

Trend in underlying revenue excluding transit

Year ended 31 March

Performance

Our revenue performance has been impacted by challenges in our enterprise businesses, particularly in Global Services where revenue declined due to ongoing demanding market conditions and lower IP Exchange volumes and equipment sales in line with our strategy to reduce low margin business. We explain more about the performance of our customer-facing units from page 72.

We've outlined our performance against each KPI here, together with an explanation of how we define each measure.

^a Calculated as though EE was not part of the group until 1 April 2016.

^b Calculated as though EE had been part of the group from 1 April 2015.

You can find reconciliations of the financial measures to the closest IFRS measure in the Additional information section on pages

288 to 290.

Customer service measure

Right First Time is our key measure of customer service. This tracks how often we keep the promises we make to our customers. This could be about keeping to appointment times, completing orders when we agreed or fixing faults within an agreed period. As well as improving service and the customer experience, keeping our promises should mean that there is less work to do to correct our mistakes, and so reduces our costs.

Our customer service measure Right First Time was up 4.3% compared with up 6.4% last year. +4.3%

2018 customer service measure

Customer service improvement^a

Performance

At 31 March

Improving the service we deliver is key. Our Right First Time measure was up 4.3% (2016/17: up 6.4%). We're making good progress in some areas and every customer-facing unit has improved its Right First Time scores. Despite these improvements, we're looking ahead at improving customer experience further. You can read more about our customer service on page 21.

^a Cumulative improvement from 1 April 2009.

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Adjusted earnings per share

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 comparable consistent way to measure the performance of our business over time.

	27.9p
Adjusted earnings per share decreased 3% to 27.9p compared with down 9% last year.	2018 adjusted earnings per share
Adjusted earnings per share	Performance
Year ended 31 March	Adjusted profit after tax decreased 3% to £2,773m this year reflecting our investment in mobile devices and customer experience, along with higher business rates and pension costs, partly offset by cost savings.
	Adjusted earnings per share decreased 3% to 27.9p.

The weighted average number of shares in the market was in line with the previous year.

Normalised free cash flow

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.

We generated normalised free cash flow of £2,973m. This was up £191m compared with last year and is above our outlook of £2.7bn to £2.9bn due to favourable working capital movements.

£2,973m

2018 normalised free cash flow

Normalised free cash flow

Year ended 31 March

Performance

The increase of £191m or 7% in our normalised free cash flow primarily reflects favourable working capital movements.

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Our non-financial performance as a
sustainable and responsible business

Our integrated approach to reporting means that the requirements of the new Non-Financial Reporting Directive are addressed throughout the Strategic Report.

For ease of reference, information pertaining to each of the matters addressed by the new regulation can be found on the following pages: Human rights (page 41); Employees (page 43); Social (page 47); Environmental (page 54); Anti-corruption and bribery (page 57).

Additionally, non-financial matters have long been embedded in our business model as stakeholder outcomes on page 31, and within our principal risks and uncertainties on pages 57 to 70. Non-financial performance indicators are linked to our ambitions and foundation measures as a sustainable and responsible business and can be seen in the table below.

				Target met	Target failed	Ongoing
	Our ambitions	2016/17 performance	2017/18 performance	Status		Page
Creating a connected society	By 2020, more than 9/10 people in the UK will have access to our fibre-based products and services	8.8 out of 10 UK premises passed	Ambition superseded: 95% of premises now passed by superfast broadband^a	n/m		47
	By 2020, to help 10m people overcome social disadvantage through the benefits our products and services can bring	3.9m people reached	4.6m people reached			47

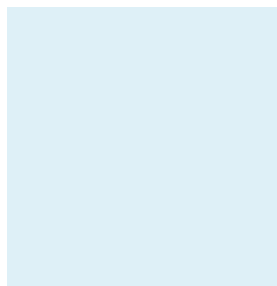
Creating a culture of tech literacy	By 2020, to help 5m children to receive better teaching in computer skills	1.1m children reached	1.6m children reached	48
Supporting charities and communities	By 2020, to use our skills and technology to help generate more than £1bn for good causes	£95m raised for good causes Cumulative total: £422m since 2012	£109m raised for good causes Cumulative total: £531m since 2012	48
	By 2020, to inspire 66% (two-thirds) of our people to volunteer	31% of BT people volunteering	39% of BT people volunteering	45
Delivering environmental benefits	By 2020, to enable customers to reduce their carbon emissions by at least three times the end-to-end carbon impact of our business	1.8:1 achieved	2.2:1 achieved	54
	By 2030, to cut our carbon emissions intensity by 87%, compared with 2016/17 levels	n/m (new ambition)	6.8% reduction	54

^a including other network operators.

	Our foundation measures	2016/17 performance	2017/18 performance	Status	Page
Investment in society	Investment to accelerate our purposeful business approach; to be more than 1% of adjusted profit before tax (PBT)	1.03% of PBT invested	1.02% of PBT invested		47
		1.08% 5-year average			
Customers	Customer service: to consistently improve RFT across our entire customer base	6.4% improvement	4.3% improvement		21
Employees	Employee engagement index: to maintain or improve our relationship with our employees	71% favourable	74% favourable		44
	Sickness absence rate: to maintain or reduce % of calendar days lost to sickness	2.32% calendar days lost to sickness	2.30% calendar days lost to sickness		46
	Ethical performance: to maintain or improve our employees	76% favourable	83% favourable		57

	perception of our ethical performance			
		99.3% trained	99.5% trained	57
	Ethics training: all employees ^b to complete annual training on our ethics code (including our zero tolerance approach to Anti-Corruption & Bribery)			
Supply chain	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	100% follow-up within three months	100% follow-up within three months	50
	Renewable electricity: by 2020 to buy 100% of our electricity worldwide from renewable sources, wherever markets allow	77% ^c bought from renewable sources	81% bought from renewable sources	55
		n/m (new target)	6.3% reduction	55

Carbon emissions: by 2030, to reduce our supply chain carbon emissions by 29%, compared with 2016/17 levels



n/m - not meaningful.

To find out more about these measures, our methodologies and how our results are calculated, take a look at bt.com/deliveringourpurpose

^b At least 99.5%, excluding those on maternity, paternity or long-term sick leave or with other extenuating circumstances.

^c 2016/17 energy figures restated see bt.com/deliveringourpurpose for details.

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Our evolving strategy

Like every chief executive, my job is to create value for shareholders. But what we're doing differently is creating value in a sustainable way that we can repeat year after year.

BT is uniquely positioned to be a leader in converged connectivity and services. This position of strength will enable us to build on the disciplined delivery and risk reduction of the last financial year and enter an exciting new phase in its transformation.

What's our plan?

Our industry is changing and so is our business. We're building a company which delivers a unique and compelling proposition for our customers – offering the ability to communicate, work, discover, buy, socialise, play, and watch.

It starts with our evolving strategy (see page 28) which is focused on:

delivering differentiated customer experiences

investing in integrated network leadership

transforming BT's operating model

What's next?

It's been a year of disciplined delivery and risk reduction but we know we're only at the beginning. We're operating in a demanding environment and we've still got plenty to do. So we're scrutinising and transforming all aspects of our business to deliver the

strongest returns and benefits to all our stakeholders.

[For our customers...](#)

It means creating a joined-up, reliable and secure network that connects them to everything they need, wherever they are.

[For our people...](#)

It means creating roles, teams and workplaces in which they can flourish and develop their skills.

[For our shareholders...](#)

It means driving growth in long-term value while maintaining our dividend policy.

[For the UK...](#)

It means continuing to play our part in ensuring the UK remains one of the world's leading digital economies.

This report is about what we're doing and the investments we're making. Actions that will help us navigate our challenges and make the most of our opportunities.

I'm really excited to be delivering the next stage of BT's transformation and have put in place the team that will support me in achieving these objectives.

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Our evolving strategy

We have evolved our strategy

to focus on converged connectivity

and services

Well positioned to drive sustained growth in value

We have a strong set of assets, including a leading position in the UK in fixed and mobile access networks, with strong and clearly segmented brands. We have deep relationships with a wide range of customers including 30m consumers, 1m businesses and around 1,500 multinational corporations. We also enjoy close strategic partnerships with key content, technology, device and service vendors.

Combined, this means that we are uniquely positioned to lead network, product and service convergence across the consumer and enterprise markets, which we see as a critical market trend and an opportunity to drive further value for our business.

Navigating a demanding environment

Like all businesses, we must continually adapt to our market environment. Data consumption and network capacity requirements are increasing exponentially and our enterprise customers want to migrate from legacy communications products towards digital, converged and secure products and solutions. Competition remains intense across the sector from both established players and new entrants.

We are also seeing a new wave of infrastructure investment in fibre-to-the-premises and mobile coverage and technology. And recent regulatory outcomes are reducing Openreach's returns towards its allowed cost of capital.

An evolution of our strategy

We have evolved our strategy to build on our strengths and

allow us to respond to market opportunities and challenges.

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Our purpose remains to use the power of communications to make a better world. This drives everything that we do.

Our vision is leadership in converged connectivity and services, delivered brilliantly in the UK and for multinational corporations. This highlights our commitment to convergence as a growing category of products and service.

Our goal is to drive sustainable growth in value. This reflects our commitment to balance top and bottom-line growth and to create value from our investment in our integrated network and differentiated products and services.

We will deliver these through three strategic priorities:

1. Deliver differentiated customer experiences

We will further differentiate our propositions, to retain and expand value. We will do this by creating innovative new propositions, improving value for money, offering better service, and making it easier to do business with us. We have made progress with customer experience in recent years, but there is much more to do.

2. Invest in integrated network leadership

In UK fixed, we will drive take-up of our superfast network and accelerate our investments in ultrafast through fibre to the premises to 3m homes by 2020 and through Gfast.

In UK mobile, we will expand our leadership in 4G coverage and capacity, and we intend to lead the market to 5G too.

Ultimately our aim is to build a single, integrated all-IP fibre network. Our investment will allow us to progressively close down legacy products such as the public switched telephone network, lead the market in advanced digital products, improve customer experience, and reduce our operating costs.

3. Transform our operating model

We are creating a more lean and agile organisation, with a simplified operating model, and more straightforward decision-making.

The steps we are taking to achieve this include:

- simplifying our operating model by creating four customer-facing units focused on Consumer, Enterprise, multinational corporations through Global Services and fixed access networks through Openreach

having fewer, bigger, more accountable leadership roles and simplifying and delayering our management structures

accelerating the delivery of Digital GS, introducing new digital products with a greater focus on our top global customers

reducing inefficiencies from being housed in numerous sites across the UK to focus on around 30 modern, fit-for-purpose sites to create a more collaborative, open and customer- focused working culture

move from buying to strategic sourcing, consolidating our spend and standardising our products

make better use of digitalisation to improve customer- experience and reduce costs to serve.

These strategic priorities will be tailored to the different **needs of our key customers** in each of our customer-facing units:

for **UK Consumer** and **Enterprise**, our focus will be on accelerating the development of converged services

in **Global Services**, our focus will be on evolving towards a more digital proposition and operating model

Openreach will focus on delivering unmatched UK-wide fixed access to all CPs.

Outcomes from our transformation

As a result of our transformation we will be more efficient, productive, focused, and better able to deliver excellent experiences to our customers. There should be a substantial positive impact on our financial performance, albeit offset in the short term by recent regulatory outcomes: Over three years we are targeting improvements in our customer experience metrics, revenue generating units per customer, converged product penetration and digital interaction with our customers. We will deliver a three-year reduction of around 13,000 mainly back office and middle management roles, partially offset by new hires to support customer service and network deployment. We expect the programme to cost £800m and have a two-year payback.

Ultimately, we will create a fit-for-future organisation to drive sustainable growth in value for all our stakeholders as the leader in convergent connectivity and service in the UK and for multinational corporations.

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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 and serve customers in 180 countries (see page 92).

International Integrated Reporting Council's capitals

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

You can find out more at: theiirc.org

Financial

Human

Manufactured

Intellectual

Social

Natural

Find out more:

Our strategy

The main elements of our strategy in the year are on page 20.

This business model section reflects our evolved strategy which is described on page 28.

Our principal risks and uncertainties

We describe our approach to risk management and principal risks and uncertainties on page 57.

Our viability statement

Our directors' assessment of the prospects and viability of the group is on page 71.

Governance

How we govern the group is described from page 131.

Remuneration

The directors' remuneration report is on page 156.

What sets us apart

<p>Financial strength We're focused on growing our cash flow over the long term.</p>	<p>£3.0bn normalised free cash flow generated in 2017/18</p>
<p>Our people Their commitment, expertise and diversity are key to our success.</p>	<p>105,800 employees 82,200 in the UK</p>
<p>Networks and physical assets We continue to invest in these to improve the experience we offer our customers.</p>	<p>27.5m premises passed by our fibre footprint 90% 4G geographic coverage</p>
<p>Research and development We're one of the largest investors in research and development in the UK.</p>	<p>c£510m R&D spend 97 patents filed</p>

<p>Our culture The BT Way and our values express how we work together and what we expect from our people.</p>	<p>Personal Simple Brilliant</p>
<p>Our brand Our brands are a key asset.</p>	
<p>Natural resources We use some natural resources in doing business.</p>	<p>81% of the electricity we buy worldwide comes from renewable sources</p>

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What we do

This section details our purpose, goal and strategy in the context of our business model. It also explains how we create value for our stakeholders by providing services that are integral to modern life.

Our purpose,

goal and strategy

Our purpose

Our business model is built around our purpose, which is as simple as it is ambitious: to use the power of communications to make a better world.

Sustainability, ethics and human rights

To achieve our purpose, we must do business responsibly. That means behaving ethically, respecting people and the environment. We are a signatory to the UN Global Compact principles and we're actively contributing to the UN Sustainable Development Goals.

We have a steering group that oversees human rights governance and policies and we're committed to implementing the UN Guiding Principles on Business and Human Rights.

Every year we publish a statement which sets out our stance on modern slavery and human trafficking. And we don't tolerate bribery or corruption.

Non-financial information reporting

New regulations on non-financial information mean we must report on the following topics:

P41 Respect for human

rights

P43 Employee matters

P47 Social matters

P54 Environmental

matters

P57 Anti-corruption and

bribery

There are references to our policies in these areas, along with how we've done against various measures, throughout the Strategic Report. Some of the outcomes feature in the business model graphic on page 31. We've listed others in the summary of our non-financial performance on page 26.

[Read more in our Delivering our Purpose report.](#)

Our goal

Our goal is to drive sustainable growth in value. We'll achieve this by giving our customers a great experience and products and services they value.

Our strategy

To follow our purpose and achieve our goal, our strategy is built around the three pillars outlined on page 29: delivering differentiated customer experiences, investing in integrated network leadership, and transforming our operating model.

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 leaner and more agile we are, and the better we manage our costs, the more we can invest in the business while maintaining a strong balance sheet (page 35). It's a virtuous circle that balances short-term performance with long-term value creation.

Investing in what

sets us apart

We invest in building and maintaining communications networks in the UK and overseas. We also invest in differentiated products, services and applications to run over those networks.

Customer expectations are rising all the time. We believe that getting customer experience right is a competitive advantage. So we're investing in our people (eg more contact centre roles, more multi-skilled advisors) and our processes (eg reducing missed appointments).

Some of our investments, like TV sports rights, last just a few years. Other investments, like our fibre broadband network, are much longer term, with pay-back periods of more than a decade.

We have a distinct combination of people, technology, content, networks and other physical assets that sets us apart from competitors. Importantly, we also have the financial strength to keep investing in these areas while balancing short, medium and long-term interests

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We sell fixed-voice, broadband, mobile and TV products and services to individuals and households in the UK. For businesses we offer communications services ranging from phone and broadband through to complex managed networks and IT services and cybersecurity protection. Many public services rely on our technologies and in the UK and Ireland we help other communications providers to serve their own customers. And underpinning all this, we provide the connectivity that's essential in a digital economy.

There's growing demand for a lot of our products and services because they play such an integral role in modern life. And we'll benefit as customers use more digital services and increasingly want value, reliability and consistent service.

Market context

Consumer broadband continues to switch to fibre, to meet customers' demands for higher bandwidth. Meanwhile people are making fewer landline calls, replacing them with mobile phones, voice over IP or instant messaging. In mobile, there's continuing growth in data use and postpaid subscriptions are growing at the expense of prepaid.

At the same time, SIM-only tariffs are becoming more popular because people are keeping their phones for longer. In TV, there's growth in subscription video-on-demand (SVoD), largely as a complement to pay-TV services. And customers are increasingly using digital service channels, like apps and online chat, to interact with their service provider. Business customers are using landlines, leased lines and traditional voice services less as the market moves to data and IP voice. Other growing areas include cloud services, hosting, security and data protection. Business broadband is switching to fibre. And Ethernet and dedicated internet access services are also becoming more widespread as businesses rely more and more on connectivity.

Digitalisation or digital transformation is now a top priority for many businesses, particularly multinational corporations. It's not an end in itself. But it does help companies achieve objectives like transforming costs, operating more efficiently or improving customer experience. Our Cloud of Clouds strategy (page 94) positions us well to be a trusted partner in our customers' digital future.

We aim to be the UK's leading converged operator – bringing together our fixed and mobile network assets to make sure our customers are always connected to the best possible network, and selling converged propositions that offer much more than simple bundles. We're uniquely placed to do it with the brands, scale and breadth of capabilities to benefit from convergence.

Our strategy puts us in a strong position to drive, and benefit from, these market trends. You can find out more in the customer-facing unit sections from page 72.

Channels to market

We sell our products and services through our customer-facing units.

We do it through a range of channels including online, contact centres and account managers. We also have around 600 EE stores in the UK.

Multibrand strategy

We have three retail brands (page 39). They let us serve different sectors of the market and lead to higher consideration by potential customers when they're deciding whether to buy from us or one of our competitors. Add to that the cross-selling between our retail brands and we have an opportunity to sell more to more people.

Diverse revenue streams

Our revenue mostly comes from subscriptions or contracts. Individuals, households and SMEs pay for standalone or bundled services, typically on 12- to 24-month contracts. Pay-as-you-go mobile services are also available.

Large corporate and public sector customers usually buy managed networked IT services on contracts spanning several years. Wholesale customer contracts range from one month for regulated products, to five years or more for major managed services deals.

Other sources of revenue include our ventures (page 100), consultancy, device sales and advertising (online, BT Sport TV channels and InLinkUK kiosks).

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What we do continued

Creating value for

all our stakeholders

What we do, matters to millions of people. We help them communicate, enjoy entertainment, do business and generally live their lives. And we contribute directly to communities and the health of the UK by providing jobs, supporting suppliers, paying tax and encouraging our people to volunteer.

Sustainability is integral to our purpose and the value we create. We're committed to using 100% renewable electricity (where markets allow) and we're encouraging our suppliers, customers and people to do the same. At the same time, our products and services are helping to tackle climate change.

Our business generates emissions. From our operations, supply chain, and through the energy our customers use to power our products. But we're contributing to a lower-carbon economy by cutting our own carbon footprint and helping customers cut theirs. The emission savings for our customers outweigh our own footprint. This means we're a net positive business (see page 54).

From a purely financial perspective, our carbon-saving products and services contribute £5.3bn revenue to our business^a.

Oversight

and governance

The markets we operate in are dynamic and very competitive, particularly the UK. There are many risks and opportunities, so it's important that our strategy and business model are flexible and sustainable. To help us we:

have a risk management framework to identify and mitigate the challenges we face (page 56)

use insight teams to keep us in tune with market drivers and customer expectations

talk and listen to our stakeholders to understand what's important to them

use governance committees to ensure we're making the right investments and investing with discipline. Together, these things 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.

We know 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 71).

The Design Council and BT Investment Board

The *Design Council* was a sub-committee of our *Operating Committee*. It was responsible for making sure capital investments in our networks, systems, platforms and products reflected our strategy, served the needs of our customers and were delivered cost-effectively. The *Design Council* was dissolved in October 2017 following the creation of the *Executive Committee* (page 18).

From December 2017 the *BT Investment Board* has been responsible for providing input and recommendations to support the chief executive on major capex and opex decisions (see page 133).

aThe list of our carbon-saving products and services is established and verified by Carbon Trust; the associated revenue is based on total external sales, independently verified by Lloyd's Register.

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Our resources and culture

In this section we talk about the resources that set us apart and underpin our business model. We also describe our culture and approach, and commitment to respecting human rights.

Financial strength

Our financial strength means we can make long-term investments while supporting other areas of the business.

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

We have a prudent financial policy and adhere to a disciplined process for the allocation of capital between four main uses: investment in the business; supporting the pension funds; paying dividends to shareholders; and maintaining a strong balance sheet. We also have strong governance and investment processes/controls. Together, they help us make the right decisions when it comes to planning investments, growing our business, and managing our level of debt and credit metrics.

Healthy finances also mean we can support the business in other ways. For example we continue to invest in R&D to stay at the forefront of a rapidly-changing industry, and in training, developing and supporting our people.

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 and businesses. Our fibre broadband network now passes more than 27.5m UK premises, and we provide fibre-to-the-premises to more customers than any other UK service provider. To meet the demand from businesses, we re continuing to expand Ethernet availability.

This year we've again had record levels of traffic across our UK network, with a peak demand of 9.75Tbps. The investments we've made in broadband technology mean that more customers get faster speeds and better reliability over our network.

We've also developed new technology that should more than double our previous records for data transmission speeds. Our latest breakthrough should deliver speeds of up to 13Tbps over a single fibre. This more than doubles the world record of 5.6Tbps we set last year.

Our global reach

Our global network is supported by in-country networks and infrastructure. The UK has our widest range of network services, access technologies and coverage. But we also have extensive networks in Brazil, Germany, Italy, the Netherlands, the Republic of Ireland and Spain.

The scale and reach of our global multi-protocol label switching (MPLS) network gives us a competitive advantage. Our virtual private network (VPN) services offer customers the convenience and security of a private network but over the public internet. We use our MPLS network, plus 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. If customers need service in very remote places, 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. We've seen that hacking tools, phishing scams and disruptive malware are becoming more sophisticated yet more accessible – so we've responded by continuing to develop our cyberdefence capability.

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Our resources and culture continued

Mobile network

We are investing in 4G geographic coverage and capability, consolidating the EE network's position as the biggest and fastest in the UK. We aim to expand 4G to reach 95% of the UK's geography by the end of 2020.

Wi-fi

We run one of the world's biggest wi-fi networks, with around 5.9m hotspots.

Progress this year

This year we've:

achieved 99.999% availability in our core network for broadband customers

deployed Ethernet and optical nodes into 38 data centres belonging to other companies to help grow business connectivity services.

upgraded 935 exchanges and migrated more than 309,000 customers to faster broadband services that are cheaper and more energy efficient for us to run

launched the BT Agile Connect service (see case study)

reached more than 90% of the UK's geography with our 4G network, giving many rural and remote areas access to 4G

built 323 new sites on the Emergency Service Network (ESN)

installed 138 InLinkUK units, providing users with free wi-fi at up to 1Gbps, free UK phone calls, rapid mobile device charging and touchscreen access to local digital services.

Service platforms

We run a number of service platforms that combine our network and IT resources. They underpin many of our products. Our five core service platforms are voice and mobile, broadband and internet access, TV, Ethernet and managed data, and emerging services.

Our TV platform supports a growing number of customers. Our voice and mobile platform supports EE, BT Mobile and Plusnet Mobile; it also underpins the Emergency Services Network (ESN).

Progress this year

This year we've:

shown the Ashes live from Australia with enhanced digital experience, so BT Sport customers watching online or via the app can skip straight to key moments

carried over one billion minutes a month on our BT Conferencing platform.

IT systems platforms

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

We've completed the first phase of our EE integration programme. This involved moving EE people to BT systems so all our people could benefit from a single, consistent set of applications.

Progress this year

We're simplifying the different technologies we use. This year we've:

brought together BT and EE datacentre and core IT applications management

deployed robotic process automation, using software robots to carry out automated tasks, including order entry and order management, to cut costs and improve our back-office processes.

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Properties

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

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

In the UK, we've rationalised and disposed of office, depot and data centre space in Croydon, Harrogate, Oxford and Wolverhampton.

Outside the UK, we've consolidated key office and operational locations in New York, Cincinnati, São Paulo, Frankfurt and Munich.

BT property portfolio (UK)^a

Research and development

Commercial success increasingly depends on innovation – that's why we invest in R&D. The result is an enviable track record of scientific breakthroughs, engineering successes and commercial progress.

A proud history of innovation

In 1837, 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. This business eventually grew into BT.

Ingenuity transforms the world

Our innovation has continued to transform communications since Cooke and Wheatstone's electric telegraph. Often that impact has been wider than just communications. Colossus was the world's first electronic programmable computer. It was created by GPO engineer Tommy Flowers in 1943, and heralded the start of the computer age. In 1984, we deployed the world's first commercial 140Mbps single-mode optical fibre link. This technology is now the backbone of communications, carrying huge volumes of internet traffic around the globe. We made the world's first live data call over GPRS (a mobile technology) in 1999. Less than 20 years later, mobile data has transformed the way people live.

You can read more about our innovation at btplc.com/innovation

We showcased our innovation at two major events this year. Innovation 2017 was held at Adastral Park, our global R&D headquarters in Suffolk, UK. It was attended by 625 customers and influencers, including government, investors, journalists and analysts. New Scientist Live hosted 30,000 visitors over four days. We sponsored its technology zone.

This year we invested around £510m (2016/17: around £520m) in R&D. Over the last decade we've been one of the largest investors in R&D both in the UK, and globally in the telecoms sector.^b

Our research keeps producing new inventions. In 2017/18 we filed patent applications for 97 inventions (2016/17: 102), and as of 31 March 2018 had a worldwide portfolio of more than 5,000 patents and applications.

97

patent applications filed in 2017/18

5,000

patents and applications in our worldwide portfolio

^b Comparison based on total R&D spend 2007/8 to 2016/17. Source: EU Industrial R&D Investment Scoreboard, <http://iri.jrc.ec.europa.eu/scoreboard.html>

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[Our resources and culture continued](#)

Open innovation

No-one has a monopoly on good ideas. That's why we work with partners, universities and customers from around the world.

There are eight BT global development centres. Our biggest is the innovation campus Adastral Park. Around 3,600 people work there and we share it with more than 90 other high-tech companies.

We have extensive, long-standing, joint-research programmes with Cambridge University (UK), Massachusetts Institute of Technology (USA), Tsinghua University (China), Khalifa University (UAE) and more than 30 other universities globally.

We've used ideas inspired by our collaboration with MIT or Artificial Intelligence (AI) and machine learning to create algorithms that give us a deeper understanding of our access network. This year we launched a five-year research collaboration with Huawei and the University of Cambridge. It will focus on photonics, digital and access network infrastructure and media technologies, alongside work aimed at boosting the impact of communications technologies in society.

We've opened the BT Ireland Innovation Centre with Ulster University in Belfast. It will work alongside the Belfast Global Development Centre and BT Labs at Adastral Park in Suffolk on projects including Internet of Things, artificial intelligence and data analytics for customer experience and cybersecurity.

Repurposed innovation

We like to repurpose innovations from other industries and apply them to our business. This year we flew a drone across a river in a Welsh valley to deliver a fibre. We're looking into new ways to roll out fibre without so much digging. These include new directional drilling techniques and autonomous robots that propel themselves through the ground like worms.

Our researchers are investigating the application of artificial intelligence and machine learning techniques to the operation of 5G networks.

We're also exploring how we can use a technique from the mobile world called beamforming to improve our copper lines performance. It exploits the interference or crosstalk between copper cable pairs to boost the speed achievable on a line.

Awards for our research and development

We're proud that our R&D is recognised outside BT. Here are some of the awards we've won this year.

UK IT Awards: Best IoT (Internet of Things) Project

TM Forum 2017: Excellence Award for Smart City Innovator of the Year

TM Forum 2017: Outstanding Achievement Award

The Engineer magazine: Collaborate to Innovate Awards 2017

Here are two examples of BT R&D this year:

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Brand and reputation

We own three strong retail brands:

BT, EE and Plusnet. Between them, they cover UK and global markets for consumers, businesses and the public sector. We've positioned these three brands to maximise their customer reach and minimise overlap. This multi-brand approach makes us more agile in our markets and broadens our overall appeal. We also own the Openreach brand, with which we serve communication providers.

Lots of things affect our brands and reputation. But people's direct interactions with us play a big part. That's why we're committed to optimising every aspect of customer experience: from our products to our service experience to our communication. For more on how we're improving customer experience, see page 21 and our customer-facing units from page 72.

^a Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organisation and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

^b MarketScape for Global Managed Security Services Vendor Assessment 2017, Martha Vazquez, 1 December 2017. The BT brand stretches across consumer, business and public sector markets within the UK and across multinational business markets in 180 countries.

This year, we unveiled Ultrafast Fibre, the first and only fibre broadband with a 100Mbps speed guarantee, and we were host broadcaster of the UEFA Champions League Final in Cardiff.

In the UK business market, we have the highest awareness of any telecoms, networks and IT services brand. Strong business wins included network services for Severn Trent Water and mobility services for FirstGroup Plc.

BT was recognised as a leader for the 14th consecutive time in Gartner's Magic Quadrant for Network Service Providers, Global^a. (See page 95.)

And BT was named a Leader in the IDC MarketScape for Worldwide Managed Security Services 2017 Vendor Assessment^b.

EE is the UK's biggest mobile network operator, positioned at the cutting edge of technology.

With around 600 retail stores across the UK, we are also first for spontaneous brand awareness, despite being the youngest major UK mobile brand by almost a decade.

EE's mobile network has been independently recognised as the best overall network by RootMetrics and in 2017, it was the only network in the UK able to offer mobile connectivity for the new Apple Watch.

Plusnet offers UK customers a great value range of broadband and mobile services.

In 2018, Plusnet's outstanding customer service continued to be acknowledged with industry awards, including uSwitch's Best Customer Service for the fifth consecutive year.

At the same awards, we also won Best Value for Money, Best Home Broadband and despite only launching mobile in 2016 Best Value Mobile (SIM-only).

Openreach (page 104) builds and maintains Britain's digital communications network.

More than 25,000 engineers take care of 165 million kilometres of network, working in every community, every day.

This year, Openreach launched a new brand identity, reflecting commitments made as part of the DCR settlement (page 52). The programme to change all assets has already begun, including our buildings, vans and uniforms.

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Our resources and culture continued

Our culture

We want our culture to reflect our values of personal, simple and brilliant, for our people and our customers.

Our values

We're proudly personal, simple and brilliant in many ways already. That includes our history of pioneering innovation, a strong volunteering ethos, diverse career development for our people, and our ability to disrupt the market and reinvent ourselves when we need to – as through ventures like BT Sport, the 2012 Olympics and the acquisition of EE.

Embedding our values further

There's more to do to be personal, simple and brilliant every day.

So we've launched a multi-year transformation programme to simplify our organisation, improve business performance, and reform our culture and capabilities.

This year we've begun simplifying how we do things – by helping our people take personal ownership to resolve their customers' issues and introducing new ways to make better and faster decisions. That means making sure accountabilities are clear and decisions are made at the right level of the organisation, as close to customers as possible.

We've encouraged more diverse thinking in the business by attracting more diverse talent. This year we doubled our graduate intake and quadrupled our apprentice intake across the group. We're offering more career development opportunities for our people, as well as inspiring fresh perspectives.

We're also building new programmes and resources to help our people be brilliant, clarifying the key skills and behaviours they need now and in the future (including Management Essentials, Business Essentials and Connected Leaders (see page 44).

Finally, we've been helping our people do the right thing by:

regularly reaffirming our expectation that everyone acts with integrity through our ethical code

creating a safe environment where everyone can speak up about risks and concerns

equipping our leaders to have more regular open and honest conversations so they make better-informed decisions.

The BT Way

All of this will come together in **The BT Way** – a three-part guide to reflect how we work together as a company, how we treat each other and how we expect everyone to behave. It will include:

how we're **organised** and how we deliver for our customers

what we expect from our people through our updated **ethical code**

what's important to us and how we do things as expressed through **our values**.

Our efforts are having a positive impact

In January's BT-wide **Your Say** employee engagement survey, we did better than previous years on all our values scores:

+4%
improvement
in our Personal
score (75%)

+3%
improvement in our Simple score
(62%)

+3%
improvement
in our Brilliant
score (70%)

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Respecting human rights

We're committed to respecting human rights in our own business and through our broader relationships.

We believe that everyone is entitled to basic rights and freedoms, whoever they are and wherever they live. These are established in The International Bill of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

We've been a signatory to the UN Global Compact since it was established in 2000 – this is the world's largest corporate sustainability initiative. We use the UN Guiding Principles on Business and Human Rights (UN Guiding Principles) to guide our approach.

How could we impact human rights?

As a global company we could impact human rights either directly, or indirectly through our business relationships. Our biggest impact could be on customers' rights to privacy and free expression.

We must comply with lawful government requests for information about how people use our services and the content of their communications, but this could impact our customers' rights to privacy.

Free expression includes the right to access information. As a communications company, we need to consider situations where we might need to limit people's access to content. We could also affect: our people's rights if our employment standards fall short; workers in our supply chain through our buying practices; and communities where we operate, if we don't stick to environmental standards.

How do we manage human rights in BT?

Our ethical code sets out the standards we expect of our people and those who work on our behalf, including how they respect human rights.

We have a team dedicated to human rights integration and a Human Rights Steering Group chaired by a member of our *Executive Committee*. This year it considered a range of issues, including:

- contracts we're monitoring for human rights issues

- our second Modern Slavery Act statement and programme

our second privacy and free expression report

the impact on human rights when broadcasting large sporting events.

What we've been doing this year

We've been pulling together our existing policies on human rights issues into one overarching policy. As part of that we've reviewed our operations in key countries outside the UK with the help of a leading law firm.

Due diligence

In April 2017 we launched our enhanced customer due diligence process. To embed the key principles with our sales teams we held calls and face-to-face training.

In our due diligence checks we look for whether:

our product/service could be used for defence, military, law enforcement, security or cybersecurity purposes

the customer or end user is a government, government agency or state-owned company

the service is being provided in an extreme or high-risk country (based on external measures).

If these criteria are met we look into things in more detail – which might include contractual protections or internal monitoring arrangements.

Modern slavery

In June 2017 we co-sponsored a residential summit of international experts which explored the role of technology in tackling modern slavery. Building on the findings^a we're establishing an industry collaboration to address the challenges and opportunities for technology to help end modern slavery.

We published our second Modern Slavery Act statement^b in August 2017. It explained our progress and the steps we've taken to prevent modern slavery in our business and supply chain. We're also reviewing our policies, processes and procedures with the help of external experts.

We've continued to support the UK Modern Slavery Helpline partnering with anti-slavery charity Unseen – for more details see our Delivering Our Purpose Report.

In October 2017 Gavin Patterson joined the first Business Against Slavery Forum^c hosted by the Home Office. The forum is a way for companies to collaborate and drive change on identifying and tackling modern slavery.

Sport and human rights

Big sporting events have a hugely positive social impact. But they can also carry human rights risks like labour rights violations and community displacement.

Throughout the year we've continued working with the participants in the Mega-Sporting Events Platform for Human Rights. With input from other broadcasters, we've created a tool to help identify human rights risks when broadcasting. We presented it at the second Sporting Chance Forum^d in November 2017. The team at BT Sport are trialling the tool in their compliance processes.

Priorities for the year ahead

We'll launch our overarching human rights policy and embed it in our business having reviewed our existing metrics to support the new policy.

We'll be refreshing our privacy and free expression report with data on information requests in countries outside the UK. We'll also cover what we do on cybersecurity.

^a wiltonpark.org.uk/wp-content/uploads/WP1546-Report.pdf

^b btplc.com/Thegroup/Ourcompany/Ourvalues/ModernSlaveryAct

^c gov.uk/government/news/leading-businesses-unite-to-tackle-slavery

^d ihrb.org/focus-areas/mega-sporting-events/2017-sporting-chance-forum-meeting-report

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People are the key to transforming our business. We want BT to be a place where people feel engaged and inspired to be the best they can be. We want them to use their skills and our technology to deliver great products and services for customers, communities and societies around the world.

Our people strategy is summed up by our ambition to be a great place to work. We want to deliver a great customer experience by getting our employee experience right. That means making BT a place where our people can do brilliant things. At the heart of this are our values.

Personal. Simple. Brilliant.

They guide our decisions and behaviours.

All of our people have a role to play in bringing our values to life wherever they are and whatever job they do.

Our workforce

At 31 March 2018 we had 105,800 full-time equivalent (FTE) employees in 59 countries, with 82,200 based in the UK.

As our business evolves to meet our customers' needs, we aim to reskill and redeploy our people to avoid redundancies where possible. Last year in the UK we redeployed almost 850 people, letting us keep experienced people with the skills we need for the future. More than a third of our redeployed people are in engineering or customer service. We've further developed their skills through training programmes.

Hiring talented people

We've increased awareness of BT as a brilliant employer by publishing engaging and informative careers content on social media. It's making a difference. In 2017 we were recognised by Marketing Week as one of the Best Places For Marketeers To Work. Our content is continually liked and shared across social media and we've had over 1.3 million visits to our careers site.

This year, excluding acquisitions, we hired almost 14,100 people, of which almost 10,100 were UK-based.

We've hired almost 2,400 engineers into Openreach as improving the quality of our customer relationships remains central to our people strategy.

Finally, we have converted almost 840 skilled agency workers to permanent employees because we recognise how important it is to keep experience inside our business.

Hiring more apprentices

We hired more than 2,100 new apprentices across the group in 2017/18. This is more than double the previous year's intake, following the introduction of the apprenticeship levy in April 2017. We plan to take on a further 4,600 apprentices next year.

Hiring more graduates

This year, we recruited 460 graduates globally, and we plan to hire more than 480 next year.

Awards

Once again we're in The Times Top 100 Graduate Employers. We're one of only three companies in the IT and telecoms sector to feature in the top 100.

Recognition

We've been named large employer of the year at the Scottish Training Federation and the BPP awards, and creative and digital employer of the year at the Asian apprentice awards.

Reputation

We're extremely proud our apprenticeship programmes have recently been graded excellent in all areas in the latest Education Scotland audit.

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Our stakeholders continued

Investing for growth

We never stop learning – whether that’s on the job or in face-to-face training. Our digital academy platform enables our people to solve problems and share knowledge and ideas with colleagues.

It’s how we adapt to a changing world and rise to tomorrow’s challenges. This year we’ve launched these new learning programmes:

Global new joiner programme

A refreshed induction for new hires, globally. We’ve rolled out corporate induction events and launched a new website for new joiners, which gets 14,000 visits a month.

Business Essentials

A suite of foundation-level online learning resources for everyone in BT, covering 18 core skills.

Management Essentials

These workshops help people managers to have better conversations with their team. The online platform helps them get to grips with the fundamentals of managing people at BT.

Following 2016’s launch of the Fibre Academy and showcase, we’ve opened a new training centre called Open Street. It replicates the Openreach fibre and copper network from exchange to customer premises, with a working exchange, street cabinets, houses and business premises. It includes the end-to-end underground and overground accessible network for our engineers to train and accredit on. It’s open for network demonstrations for BT as well as our external customers.

Investing for change

In such a fast moving industry we must invest in the skills, capabilities, methods and tools to define and deliver change in the right way. We’ve developed a new change approach to improve our customer experience, growing our business and making BT an even better place to work.

Our change approach

We define change by understanding where we are today and what we and our customers need. We create a solution to deliver the change. And through this cycle, we take steps to engage our people.

Leadership

This year, we've invested heavily in leaders. We've appointed 42 senior leaders, with 19 of these coming from other organisations. We've launched the Connected Leaders development programme to identify the type of leaders we want to attract and develop internally. It's been a huge success; with over 39,000 people accessing the online development platform, 8,000 leaders completing a personal development assessment and more than 700 attending our learning programmes.

We've also launched two new development programmes targeted at people with high potential.

Future Leaders

In 2017/18, we've taken on more than 300 people with high potential and developed them to become leaders for the first time. More than 40% of the 2016/17 cohort have gone on to become managers.

Senior Talent Programmes

We've identified more than 80 senior leaders as having high potential for the future, and started accelerating their career development.

Engaging our people

Around 93,000 (86%) of our people responded to our 'Your Say' engagement survey in January 2018. It's our highest ever completion rate. The survey results show improved overall engagement at 74%. This is encouraging. There's been a steady improvement in many categories since June 2017.

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BT	% Fav.	Change
Engagement outcome	74%	+2%
Leading our people	59%	+5%
Managing our people	81%	+2%
Empowering and equipping our people	61%	+2%
Enabling outstanding customer experience	64%	+3%
Working together	65%	+2%
Personal growth	73%	+3%

We tell our people about company results, major business decisions and other things that affect them through lots of different channels. Leaders regularly meet their teams through roundtables, town hall debates, site visits, webcasts and blogs.

We also listen to our people's concerns through more formal engagement with our European Consultative Council, the Communication Workers Union, Prospect and EE employee representatives in the UK.

Volunteering

Our 2020 ambition

66%

Inspire two-thirds of our people to volunteer

As part of our commitment to support charities and communities, (page 48), our people get up to three working days a year to volunteer. Volunteering means they can use their skills, energy and enthusiasm to tackle an issue or make a practical difference in their communities. Our volunteering website lists opportunities and lets everyone log activities centrally.

This year more than 2,000 of our people spent almost 5,000 days supporting our work to build a culture of tech literacy as Barefoot and Work Ready volunteers (see page 48).

Overall, 39% of our people registered their volunteering activity this year.

Diversity at work

We want a diverse workforce that matches our customers and delivers our business goals.

In March 2018 we reported our first gender pay gap data under new government guidelines, relating to data from April 2017. Our gap is below the UK average. But we are still working hard to be more diverse and inclusive, and to have women better represented at all levels in our business.

You can find out more at btplc.com

Around 26% of our workforce and 28% of our management are women. Three out of eleven Board members are women (27%). And 42% of our new executive hires have been women.

By 2020 we want women in 40% of our most senior roles. To support this, we're widening our Tech Women programme which develops talented BT women into senior roles where they're underrepresented. This year we extended the programme to 172% more women than last year, including those outside the UK. In March, the programme won the BQF Innovation in Diversity award.

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Our stakeholders continued

We've also launched an extra employee network to connect mums who are returning to work. Our maternity return rate is 86%, measured one year after women returned to work.

We've been named in the *Business in the Community's* 100 Top Employers for Best Employers for Race 2017.

Around 12% of our people have a Black, Asian or Minority Ethnic (BAME) background. Around 19% of our external appointments come from a BAME background.

Sponsorship helps build an environment where diversity is valued. So our senior leaders have had Inclusive Leadership workshops to help them overcome unintentional bias in decision making. We've also appointed executive sponsors for women, women in tech, race, disability and LGBT+.

Health, safety and wellbeing

Improving our people's wellbeing is just the right thing to do. But it also drives better business performance.

The latest research is helping us determine what we need to do to foster good physical, psychological and emotional health in our workplace – beyond our commitment to zero avoidable harm. Our global health, safety and wellbeing policy sets out our approach and the *Executive Committee* and Board regularly monitor progress.

Our accident rate has dropped by a further 11% to its lowest-ever level and far fewer injuries are serious. Our risk profile is changing as we recruit more young people and we've responded by enhancing training and improving health and safety systems.

Fewer people took time off sick this year and our absence rate has dropped by 1% to 2.3% (against our 2.24% target).

Mental health is still our biggest focus. We endorse all the recommendations of the UK Government's Stevenson/Farmer review. Prevention is key. Today work-related problems account for 16% of people seeking psychological support, compared with 36% five years ago. We've strengthened our wellbeing support services through a peer-to-peer scheme and our success rate in getting people with mental illness back to their normal work has risen to 97%.

Pay and benefits

We regularly review our pay and benefits to make sure they're competitive compared with similar companies.

Most of our UK-based engineering and support people's pay is negotiated through collective bargaining with our recognised trade unions. This means everyone gets treated fairly. Our managers' pay ranges are also set at competitive levels. We work out bonuses through a mix of business performance and personal contribution.

Our executives may also get long-term share awards. These are discretionary and aligned to the long-term strategy of the company. What they get is determined by the group's performance over a three-year period. Executive directors must keep hold of those shares for two more years.

In line with regulation, incentives for Openreach people are tied to a combination of personal contribution and Openreach's performance, not the wider group. And these are paid in cash, not BT shares.

We support our people through retirement savings plans and country-specific benefits.

In the UK, after extensive consultation, we'll be removing the eligibility for the majority of BT Pension Scheme members to accrue future benefits in that defined benefit scheme. Instead, these members and existing members will benefit from an enhanced contribution structure in our UK defined contribution plan – the BT Retirement Saving Scheme. This will provide more equal benefits across BT people in the UK and keep our pensions fair, flexible and affordable.

[You can read more about this on page 235.](#)

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We listen to our customers, and have been investing to improve the experience they get from BT.

Our customers include UK individuals, households, businesses of all sizes and public sector organisations, plus companies around the globe.

You can read about our markets, customers and the services we offer them in our customer-facing units section, from page 72.

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

We're at the heart of the UK's digital strategy

We use the power of communications to make a better world. The greatest impact we make to society and the economy is through our products and services, underpinned by our networks.

This year we invested nearly £36m in initiatives that further our societal and environmental ambitions and contribute to economic growth. That figure includes cash, time volunteered, and other in-kind contributions. Over the last five years we've invested a total of £166m, averaging 1.06% of our adjusted profit before tax.

Total investment in society

Year ended 31 March

Our Board *Committee for Sustainable and Responsible Business* (page 153) oversees these initiatives, in line with our shared value policy. We summarise progress on our societal ambitions below, with our environmental ambitions reported on page 54.

And there are more details in our Delivering our Purpose report: [bt.com/deliveringourpurpose](https://www.bt.com/deliveringourpurpose)
Providing access to fast broadband

Our 2020 ambition

9/10

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

This year we supported the Government's initiative to deliver superfast speeds (24Mbps or higher) to 95% of UK homes and businesses. Thanks in part to community fibre partnerships, our fibre broadband network now passes more than 27.5m premises.

Our original 2020 ambition (above) has now been superseded by the new Openreach targets for fibre access (page 110). We are also extending our mobile network coverage across the country (page 83).

Promoting digital inclusion

Our 2020 ambition

10m

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

Society is changing. Digital is at the heart of this. Everybody should have both the access and skills to make the most of the digital world. Since setting this ambition in 2015, we've helped 4.6m people overcome social disadvantage:

Our portfolio includes a lot of products and services for elderly, disabled and financially-disadvantaged people. And this year we established a partnership with the charity Action on Hearing Loss, to develop new propositions for their customers.

^a [gov.uk/government/publications/uk-digital-strategy](https://www.gov.uk/government/publications/uk-digital-strategy)

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Our stakeholders continued

We've connected vulnerable communities in many parts of the world, bringing access to education, employment, financial support and healthcare. Our Connecting Africa initiative this year won the World Economic Forum's New Vision for Development award.

We collaborate with our industry partners to develop new products to help the most vulnerable. This year saw two highlights through our partnership with TechHub:

We launched Zone V (zonev.com) to make it easier for elderly or disabled people to use smartphones.

Tackling cybersecurity, we also ran a competition to Secure the Nation. The winning SME Chorus Intelligence uses data analytics to support police in building intelligence cases to help solve crimes.

Through our collaboration with Doteveryone, we continue to research public attitudes towards digital technologies. We use the results to help get more people online and develop the skills to make the most of technology safely.

Our advisory role to the Government's digital skills partnership means we can inform policy development and help shape the work of the public sector, NGOs and industry.

Building skills for the next generation

Our 2020 ambition

5m

We will help 5m children receive better teaching in computing and tech skills

Young people need tech know-how to thrive in the digital world. But there's a risk that the next generation won't have the skills to do the jobs of the future or shape a more inclusive society. As we build the UK's future digital infrastructure, we can use our national footprint to help the next generation make the most of technology in life and work.

Starting in primary schools, the Barefoot Computing Project helps to equip teachers to teach children computational thinking like logic, sequencing, abstraction and programming – the building blocks of tech literacy. With our partners

BCS, the chartered institute for IT, we've now helped train more than 57,000 teachers and, through them, more than 1.6 million children.

As children get older, we want to help them make more conscious choices in their online lives. So this year we've worked with 5Rights on an innovation hothouse to find new ways to help 8-13 year olds navigate the commercial realities of the internet.

As they prepare to leave school, Work Ready gives 16-24 year-olds – particularly from disadvantaged backgrounds – the skills development and work experience opportunities they'll need to succeed in a tech-enabled workforce.

Supporting charities and communities

Our 2020 ambition

We will use our skills and technology to help generate more than £1bn for good causes

£1bn

This year we helped to raise around £109m for good causes. MyDonate, our commission-free online fundraising and donations platform, covered nearly £63m of this.

Our fundraising activities focused on three main charity partners, Cancer Research UK, Comic Relief and Unicef UK. We provided Text to donate for the charity appeals we supported. They included big regular appeals like the BBC's Children in Need and raising money for the victims of the Grenfell Tower fire and Manchester Arena bombing.

Since setting this ambition in 2012, we've helped generate a total of £531m toward our £1bn target.

All of our shareholders are important, be they institutions or private individuals.

We have roughly 763,000 shareholders.

Most of our shares are held by institutional investors. We have an extensive investor relations programme aimed at keeping existing and prospective investors informed. It includes things like:

reporting quarterly, interim and full year results, accompanied by a conference call or presentation from senior management

site visits, presentations from our business units, and teach-ins on key topics

meetings and conference calls with investors both in the UK and around the world

regular communication between our Investor Relations team, investors and analysts that follow BT

In 2017/18, we held 450 meetings or events with institutional investors. This compares with 507 in 2016/17.

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Some investors care deeply about social, environmental and ethical issues. We give particular attention to these socially responsible investors via a programme designed to meet their specific needs.

As well as the Annual Report and Annual General Meeting, we keep all shareholders up to date with how we're doing through our website which has a comprehensive set of press releases, newsletters, presentations and webcasts.

Each year we survey a random sample of private shareholders to help us improve shareholder engagement. And we offer them exclusive deals on our products and services.

We pay close attention to our credit metrics.

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

These relationships are vital as we finance our business.

[You can read more about this on page 250.](#)

Our pension schemes need to be fair, flexible and affordable.

We must make sure our pension schemes are fair, flexible and affordable for all members. We operate defined contribution and defined benefit pension schemes. Most BT people working today are in the BTRSS defined contribution scheme. We also operate the BTPS defined benefit scheme which has around 300,000 members.

[You can read more about this on page 235.](#)

We use suppliers from across the world. We only choose ones that operate ethically and responsibly.

Our suppliers provide products and services that help us execute our strategy. We source from across the world and have suppliers in more than 150 countries. We spent around £13.7bn with suppliers this year (2016/17: £14.1bn). Around 92% of our spend is with our top 1,000 suppliers.

We have around 450 procurement people in 29 countries working with these suppliers.

This year we made a significant investment in our presence, capability and skill set within India, growing our team by 66. It now makes up 32% of our procurement organisation. Around 50 of our people took part in exchange visits to share best practice across cultures and enhance our capability. This is moving us towards our ambition of having a single global procurement team.

Procurement transformation

This year there was a major reshuffle of our procurement team, with a lot of changes:

We created three buying teams – two focusing on our indirect (own use) and direct (customer) procurement needs and a third focusing on all our non-UK spend.

We appointed new CFU-focused experts to manage conversations between procurement and CFUs.

We created a new scorecard which balances our performance between cost savings and things like risk, innovation and people.

We used external consultants and international benchmarks to understand the full range of commercial opportunities of our procurement categories and improve efficiency.

We carried out a detailed cost analysis of our complex networking equipment to identify further opportunities to reduce component costs.

With the University of Cambridge and a strategic supplier, we are collaborating on research to investigate how technology could be used to help vulnerable communities affected by climate change, and bridge digital divisions in society.

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Our stakeholders continued

Choosing our suppliers

We want to know who we're doing business with and who's acting on our behalf. So we:

pick 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

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' people to work in safe and fair conditions. To help us assess the risks, we send an ethical standards questionnaire through an online portal or an industry standard self-assessment tool, Ecovadis. We follow up with anyone identified as high or medium risk, based on their responses.

We also visit supplier sites to make sure they meet our standards. This year we visited 52 sites (2016/17: 63 sites) around the world. To add to our resources, we trained four people in our India team to international audit standards. And they have since contributed to the assessments carried out this year.

We published our second Modern Slavery Act Statement in August. This year the focus was on due diligence practices in our supply chain.

We continued complying with the Dodd-Frank Act and the Security and Exchange Commission (SEC) requirements, by checking whether suppliers' products contained minerals from conflict areas. In June 2017 we filed with the SEC our report for 2016, which described our conflict minerals approach and reflected the responses we received from suppliers.

Paying our suppliers

This year the average time between a supplier invoice and us paying them was 62 days (2016/17: 67 days).

Suppliers can also choose to use the BT Supplier Finance scheme which offers contracted suppliers the chance to be paid early. This cuts financing costs for whoever participates, large or small, and is particularly good for SMEs (who make up around 50% of our supply base). We remain a signatory of the UK Prompt Payment Code and support government initiatives to encourage small business growth.

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. And we support some of the UK's most vital services – including critical infrastructure, welfare, tax, health and social care, police and defence.

Our public affairs team look after our UK political relationships. They're responsible for Westminster (politicians and policy advisers) and Whitehall (the Government, including civil servants) on all issues of policy. They're not responsible for operational issues like selling or maintaining contracts and services. That's the job of Business and Public Sector (see page 86).

We have solutions designed for both central and local government. One of our most important contributions is helping organisations deliver better public services while keeping data secure. For example, this year we've supported the Metropolitan Police with the world's largest rollout of body-worn video cameras. We're also rolling out wi-fi which will allow frontline officers and more than 20,000 civilian staff to work more flexibly.

Supporting the armed forces community

The Government recognises us as one of the UK's leading supporters of the armed forces community. This year:

the MoD renewed the Employer Recognition Scheme (ERS) Gold Award it first gave us in 2014

we helped make the MoD's new Military Mental Health Helpline a reality. Launched in February 2018, it's targeted at serving personnel and their families – allowing them to access the help, advice and support they need outside of work, anytime, anywhere in the UK.

Civil resilience and other obligations

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) have to run 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 if they're in the interests of national security.

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We advocate clear, predictable and proportionate regulation.

Communications and TV services are regulated in the UK and around the world. This is to make sure that communication providers (CPs) and broadcasters stick to common standards and rules, and that nobody is disadvantaged by providers with strong positions in their market.

Overseas regulation

The degree of regulation in international markets varies widely. This can hinder our ability to compete and provide the services our customers want. We continue to press incumbent operators around the world, and their regulators, for fairer, cost-related wholesale access to their networks.

European Union (EU) regulation

In EU countries, electronic communications networks and services are governed by Directives and Regulations set by the European Institutions. These create an EU-wide framework (the Common Regulatory Framework) for fixed and wireless telecoms, internet, broadcasting and transmission services.

The Directives are there to encourage competition, which in turn leads to better investment, lower prices and increased quality of service in fixed and mobile networks, and better protection for consumers. They require national regulators to review markets for significant market power (SMP) every three years and where relevant, to put in place appropriate and proportionate remedies. They also include rules covering spectrum, consumer protection and universal service obligations.

Review of European rules for the communications sector

In September 2016 the European Commission (EC) proposed a review of the Common Regulatory Framework. As part of this review, the EC wants to encourage investment in very high-capacity networks and update consumer protection rules to reflect new types of services such as over-the-top providers. Negotiations are ongoing.

To protect audiences in an on-demand, internet environment, the EC is reviewing copyright and rules for audio-visual media services. Negotiations

are ongoing.

The UK's exit from
the EU

The UK is due to leave the EU in March 2019. Depending on any transition period or trade agreements, it may no longer have to follow the EU Regulatory Framework and other rules.

Existing regulations are recognised as having helped make the UK communications market one of the most competitive in the world. UK consumers get low prices and the best superfast broadband coverage in the major EU countries. So while existing regulations might be fine-tuned to suit specific UK market conditions, we don't expect fundamental changes.

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Our stakeholders continued

UK regulation and Ofcom

The UK telecoms and broadcasting industries are regulated primarily by Ofcom (the UK's independent regulator), within the framework set by European rules and UK regulations.

Ofcom operates under the Communications Act 2003, which gives it its powers and duties.

Ofcom's main duties are to champion citizens' interests on communications matters, and to further consumers' interests by promoting competition.

Under the 2003 Act, Ofcom sets conditions that CPs must stick to. Some of these (the General Conditions) apply to all CPs. They deal mainly with things like protecting consumers, access and interconnection, and allocating and transferring phone numbers.

Other conditions apply only to certain companies who are universal service providers or who are found to have SMP in a particular market.

We're the designated universal service provider in the UK (except for the Hull area where that role is taken by KCOM Group) and have to provide basic, affordable fixed-line services to all consumers. We also have to provide public payphones.

We have SMP in a number of markets including Business Connectivity (such as Ethernet and backhaul), Fixed Access (including LLU^a, GEA^b and WLR^c), Wholesale Broadband Access and Narrowband (such as Call Origination). That's why Ofcom's market reviews are so important to us.

Ofcom's strategic review of digital communications

In July 2017 Ofcom confirmed it would release us from the Undertakings once the arrangements for our voluntary commitments were all in place. This included the employees working for Openreach being transferred to Openreach Limited and adopting the new model of functional separation for Openreach to secure greater strategic and operational independence.

Implementation of the new arrangements has gone well. Openreach Limited has been legally incorporated and the members of the Openreach Board were appointed as Directors of Openreach Limited in December 2017. The Openreach senior leadership team voluntarily transferred to Openreach Limited in January 2018.

We have worked hard to implement all of the necessary changes that we can at this stage, and on 9 April 2018 BT formally adopted all the elements of the Commitments and Governance Protocol that can be adopted without triggering the TUPE transfer. We continue to work towards the TUPE of all employees working for Openreach to Openreach Limited as soon as practicable.

Price regulation of our main wholesale products

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

Products	Annual charge	Current charge
	control (2018/19)	control ends
Fixed call termination	0.0323 ppm*	31 March 2021
Mobile call termination	0.495 ppm* (0.489 ppm from 1 June 2018)	31 March 2021
ISDN2	CPI-CPI	31 March 2021
ISDN30	CPI-CPI	31 March 2021

Metallic Path Facility (MPF)	£85.46	31 March 2021
Ethernet (up to and including 1Gbps in geographies where BT has SMP ^d)	CPI-13.5%	31 March 2019
Generic Ethernet Access (GEA) 40/10	£69.59	31 March 2021
Partial Private Circuit (PPC) ^e	CPI-3.5%	31 March 2019
Interconnect circuits	CPI+0%	31 March 2021

*pence per minute.

Other regulatory decisions and activities this year

Business connectivity market review (BCMR)

In April 2016 Ofcom published its Final Statement on its Business Connectivity Market Review. We disagreed with some aspects of this and appealed these to the Competition Appeal Tribunal (CAT). In July 2017 the CAT upheld our appeal on product market, geographic market and core network grounds. In November 2017, the CAT quashed Ofcom's decisions on these aspects and told it to reconsider.

In response, Ofcom revoked the relevant parts of the 2016 BCMR. It then imposed temporary SMP findings and obligations on Ethernet services until March 2019 using exceptional and emergency powers.

Ofcom consulted on adding dark fibre to the temporary obligations with effect from April 2018. On 12 April 2018 Ofcom confirmed that it would not be adding a dark fibre remedy to the temporary SMP remedies imposed in November 2017.

- ^a Local Loop Unbundling.
- ^b Generic Ethernet Access.
- ^c Wholesale Line Rental.
- ^d The whole of the UK except the Central London Area, the central business districts of Birmingham, Glasgow and Leeds, and the Hull Area.
- ^e <8Mbps.

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Wholesale local access market review (WLA)

Following the WLA market review in 2017, Ofcom made changes to Local Loop Unbundling (LLU) and Virtual Unbundled Local Access (VULA) product regulation. MPP^a is still subject to a CPI-based charge control. SMPF^b had its charge control removal and replaced with a fair and reasonable pricing obligation.

Ofcom has introduced a charge control for the GEA 40/10 lower speed product. The 55/10 and 80/20 products are subject to fair, reasonable and non-discriminatory obligations, though not subject to a charge control which means we still have some flexibility in how we price these other products.

Along with charge controls, Ofcom has implemented new minimum service level obligations (MSL) and a cap on duct and pole access prices.

Wholesale broadband access market review (WBA)

In June 2017 Ofcom consulted on the wholesale broadband access market. It proposed that the area with SMP (Market A) should be reduced from 10% to 2%. Ofcom has also proposed removing the charge control on our IP Stream Connect product. We've responded to the proposals and expect a final statement from Ofcom in summer 2018.

Narrowband market review (NBMR)

Ofcom completed a review of the narrowband market on 30 November 2017. This covered fixed call origination, call termination and WLR. It found that we held SMP in all these areas.

But it also recognised that alternative voice services were strengthening competition.

Ofcom decided to deregulate charge controls to fair and reasonable charges, remove undue discrimination obligations for Wholesale Call Origination (WCO) and bring in extra obligations on Wholesale Call Termination (including price controls and no undue discrimination).

Mobile regulation

On 24 September 2015 Ofcom published its final spectrum annual licence fees statement for 1800MHz and 900MHz spectrum. It trebled EE's 1800MHz spectrum fees from c£25m to c£75m per year.

EE, supported by other mobile network operators, challenged that. The Court of Appeal quashed the Statement on 22 November 2017. It found that Ofcom should have considered its wider European law duties when setting the licence fees. EE will pay licence fees at the previous level until Ofcom issues a new determination. EE, along with other mobile network operators, is seeking repayment of the historical overpaid licence fees.

On 20 March 2018 the auction for both bands went ahead with results announced on 5 April 2018. BT/EE were awarded 40MHz of 3.4GHz spectrum. The location of the spectrum assignments within the 3.4GHz band were determined after further bidding in an assignment round on 10 April. BT/EE were allocated the 3540 – 3580 MHz spectrum frequencies. This result supports our 5G leadership ambitions.

Standalone landline telephone services

After a review of the Standalone Landline Telephone Services market, Ofcom has accepted our voluntary proposal to reduce line rental prices by £7 a month.

This price cut works with our further promise to only raise call and line rental prices in line with inflation (CPI) each year. It also sits alongside our commitment to engage with voice-only and split purchase customers (who use us for landline and someone else for broadband) to make sure they are fully aware of potential savings available to them. Reduced line rental for voice-only customers came into effect from 1 April 2018.

Broadband Universal Service Obligation (USO)

In December 2017 the UK Government rejected our proposal to deliver universal broadband voluntarily.

Instead, the Government used secondary legislation to introduce a USO on broadband. It will give consumers the right to request at least a 10Mbps broadband connection from 2020. We will work closely with government, Ofcom and industry to make it happen.

Deemed Consent

In March 2017 Ofcom found that Openreach had breached certain contractual and regulatory obligations by inadequately and retrospectively applying Deemed Consent to reduce compensation payments to CPs between January 2013 and December 2014.

Deemed Consent is an agreed contractual process between Openreach and its CP customers, which allows Openreach to reschedule the delivery date for providing dedicated business services (known as Ethernet) in a number of specific circumstances.

On 27 March 2018 Openreach reported to Ofcom that it had, in its view, complied with the requirements set out in Ofcom's decision.

We estimate the total compensation payments will amount to around £300m.

Automatic compensation

Following commencement of the Digital Economy Act 2017, Ofcom now has greater powers on automatic compensation. In March 2017, it consulted on proposals for introducing automatic compensation. It has accepted an updated industry scheme from leading communications providers, including us.

This voluntary scheme will automatically compensate fixed voice and broadband customers if they lose service, have a delayed order, or get a missed appointment. The scheme is due to start in February 2019, following extensive systems development.

- a Metallic Path Facility (MPF).
- b Shared Metallic Path Facility (SMPF).

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Our stakeholders continued

For over 25 years we've been a leader in tackling climate change.

We set our first carbon reduction target in 1992. In 2008 we were one of the first companies in the world to set a science-based target to cut our carbon emissions intensity, by 80%. We achieved that four years early. Now we've gone a step further, setting an ambitious new target in line with the Paris Agreement on climate change.

Our leadership in sustainability and how to report it is widely recognised: we kept our place in the top 10 of Newsweek's Green rankings, which track the environmental performance of the 500 largest publicly-traded global companies. Carbon Clear rated us as the second-best FTSE 100 company for carbon reporting. We achieved A ratings from CDP on climate change and supply chain engagement.

On top of that, we continue to manage energy and water use, support the principles of a circular economy, and take seriously our responsibilities for the environment:

Our Environmental Management Compliance Steering Board monitors performance against our environmental policy. It reports to the Audit & Risk committees of our business units, to regional governance committees outside the UK, and to our *Executive Committee*.

We assess climate-related and other environmental risks within our enterprise risk management framework (page 56).

This year our environmental management systems have been certified to ISO14001 standards in Belgium, Colombia, France, Germany, Ireland, Italy, the Netherlands, Spain and the UK.

We're a signatory to the Climate Disclosure Standards Board's fiduciary duty and climate change disclosure. [Our Delivering our Purpose report at \[bt.com/deliveringourpurpose\]\(https://www.bt.com/deliveringourpurpose\) has more details.](https://www.bt.com/deliveringourpurpose)

Our net positive carbon impact

We're already a net positive company. That means we help our customers cut their carbon footprints by more than double our own emissions (including our supply chain). We're aiming for a 3:1 ratio by 2020.

Our 2020 ambition
3:1

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

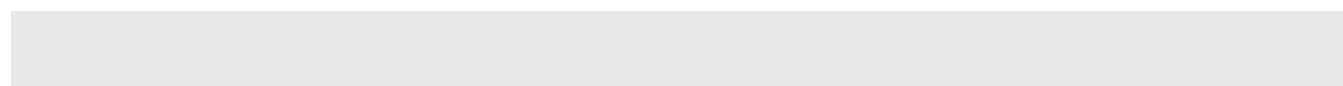
3:1 ambition	2016/17	2017/18
Customer savings (Mt CO ₂ e)	10.0	11.3
Our impact (Mt CO ₂ e)	5.6	5.1
Ratio	1.8:1	2.2:1

Cutting our customers' carbon footprints

Many of our products and services help reduce our customers' carbon footprints. This year we earned £5.3bn from these products, 22% of our total revenue.

Reducing our own emissions

This year we've set a new ambition, which has been approved by the Science-Based Targets Initiative. It aligns our impact with the most ambitious aim of the Paris Agreement – to limit global warming to 1.5°C by the end of the century.



Our new 1.5°C ambition

87%

By 2030, we aim to cut our carbon emissions intensity^a by 87%, compared with 2016/17 levels

^a measured by tonnes CO₂e per £ value added, for scope 1 & 2 emissions.

To meet this target, we're speeding up plans to cut our vehicle fleet emissions. This year we've added more plug-in hybrid models to our company car list. We're also exploring new ways to decarbonise our property estate and improve efficiency through technologies like IoT.

We report our greenhouse gas emission sources in line with UK regulations. In the last year we've reduced our total worldwide CO₂ equivalent (CO₂e) emissions by 8.9%. This year our scope 1 & 2 intensity totalled 26 tonnes CO₂e per £m gross value added; a decrease of 6.8% from last year.

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INFORMATION****Our worldwide greenhouse gas emissions^a**

Year ended 31 March

CO ₂ e Ktonnes	2016	2017	2018
Scope 3	4,391	5,233	4,758
Scope 2	51	184	160
Scope 1	172	179	180
Total	4,614	5,596	5,099
Scope 1 + 2 intensity: (CO ₂ e tonnes per £m value added)	21	28	26

We now include all scope 3 emissions in our reporting. EE data is included from 2017 onwards. Figures exclude third-party consumption. Scope 2 data uses market-based calculation. For full methodology, and further data, see bt.com/deliveringourpurpose.

About two-thirds of our emissions come from our supply chain. We're working with our suppliers to reduce their impacts too. By 2030 we want to cut their emissions by 29% compared with 2016/17. This year, we've seen their emissions fall by 6.3%.

Cutting our energy use

This year our overall energy consumption dropped by 1.7%. We've cut our energy bill by nearly £29m, cumulatively saving £250m since our base year of 2009/10. In Great Britain, we spent around £370m on energy and fuel (2016/17: £341m).

Our worldwide energy use

Year ended 31 March

100% renewable electricity

We maintain our commitment that by 2020 we will buy all our electricity from renewable sources, wherever markets allow.

We've now renegotiated most of the electricity contracts we took on when we acquired EE, in line with that commitment, and we're working on the rest. Overall this year 82% of our UK electricity, and 81% worldwide, came from renewable contracts (up from 78% and 77% respectively last year^b).

We also launched campaigns to encourage our suppliers, employees and home-mover customers to switch to buying renewable energy.

Other environmental impacts

Beyond our carbon footprint, we manage a range of other impacts, including the following:

Water use

We mainly use water in our offices and canteens, and in the cooling systems in our data centres and exchanges. We continue to monitor water use and target leaks. We've seen a 1% increase in our overall consumption this year, largely due to the adiabatic cooling systems we're introducing to cut our reliance on refrigerant gases.

Waste and recycling

We work with our suppliers to minimise whatever materials we use, and we reuse or recycle equipment and materials whenever we can. We offer take-back schemes on many consumer products, including mobile phones. Complying with national regulations, we use specialist contractors to manage hazardous waste responsibly.

^a We restate previous years' data when we think subsequent information is materially significant (like replacing estimates with measured figures).

^b 2016/17 energy figures restated – see bt.com/deliveringourpurpose for details.

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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 recognise the uncertainty that political and geopolitical risks present, and have continued to operate a specific Brexit programme across BT that looks at how we might be affected and what our response should be. This programme is keeping a close watch on developments, and reports to a steering group chaired by our group CFO.

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 296).

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:

Changes over the year

In 2016/17 we improved the way we manage risk through focusing on risks to our investment cases, developing an enhanced approach to root cause analysis, and identifying new ways to share good practice across the organisation.

Specific further improvements this year included:

Three lines of defence

We've revisited our three lines of defence model (our approach to governing and assuring our business) and how we apply it to our key areas of risk. This has helped us identify areas where we can optimise our assurance. We're also developing training around the three lines of defence to help our people better understand the model and how they support it.

External benchmarking/Internal review

We've been reviewing our risk management arrangements, using some external benchmarking and discussions with key internal stakeholders. This has helped highlight areas of strength and also areas where we can develop further. We'll be addressing those findings next year.

Real-time war gaming

We've continued our cycle of war gaming during 2017/18, and this year also tested a crisis scenario in real time. This exercise involved numerous colleagues from across the business and the learnings will help us become more resilient to future events.

Enterprise risk framework

Customer-facing unit and TSO leadership teams

Our customer-facing units 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 customer-facing unit, TSO and our group functions, make sure this process is effective.

Group Risk Panel

The Group Risk Panel supports the Board and the *Executive 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.

Executive Committee

The *Executive Committee* identifies, evaluates, responds to and monitors risks.

Significant risks are reported and monitored through the Group Risk Register. The *Executive 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.

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

customer-facing units and

in TSO.

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Compliance risks			our perception of Lessening/improving
			pre-mitigation risk At a similar level

Significant control failure

Link to strategy in year	Link to business model	Trend
Deliver great customer experience Transform our costs	Financial capital Human capital Social capital	

It is crucial that we maintain high ethical standards. We respect human rights and 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. We also have to make sure we follow trade sanctions and import and export controls. We comply with the Modern Slavery Act and follow international standards on human rights, such as the International Labour Organisation's Principles and the UN Guiding Principles on Business and Human Rights.

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. There is also a risk that our controls, which 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.

Financial controls, and the assurance that exists over them, play an important part in our ability to prevent and detect inappropriate behaviour. 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.

Potential 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, human rights abuses, violating sanctions regulations or other laws, it could lead to reputational damage with investors, regulators, civil society and customers. A breakdown in our financial control framework could result in financial misstatement.

What's changed over the last year?

We've seen an increase in Speak Up (BT's confidential hotline service) reports and conflict of interest registrations. In 2017/18 Speak Up reports increased by 63% on the previous year. This is indicative of a culture where people are more aware and confident to tell us about their concerns.

In terms of anti-corruption and bribery enforcement generally, we've continued to see a steady flow of significant cases from both the UK Bribery Act and the FCPA. In the US 11 companies paid a total of \$1.92 billion to resolve FCPA cases in 2017.

There's also been an increase in legislation (either enacted or proposed) to address and report on human rights abuses by companies.

How we're mitigating the risks

This year we've implemented a major programme of work to strengthen our controls and compliance activities, and ensure awareness of the standards we expect. Following the identification of inappropriate behaviours in our Italian business in the summer of 2016, we have also implemented wider controls that monitor our overseas operations in our shared service centres, Global Services and at a group level, see page 145.

We've redefined and communicated our three lines of defence model, and strengthened our controls policies and procedures. This covered both financial and non-financial controls, and we've re-mapped our assurance coverage across the three lines of defence for our principal risks and uncertainties. This helped us identify opportunities to improve our controls policies and procedures, as well as to extend the assurance that operates over the controls. We're also building awareness and understanding, and all finance employees have completed Financial Statement Fraud awareness training, including a module on how to escalate concerns.

We've also put a number of other controls in place to address risk in this area. These 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've developed a new guide this year, 'The BT Way', which brings together for our people how we're organised and deliver for our customers, our ethical code and our values.

We have policies covering conflicts of interest, gifts and hospitality, charitable donations and sponsorship. We also 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. We've introduced an Ethics & Compliance Integrity Risk Dashboard. It brings together various indicators to better identify possible emerging trends or particular hotspots. The approach draws together various themes to look for patterns and establish any outliers across our business.

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. In 2017/18

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[Our principal risks and uncertainties continued](#)

[Compliance risks continued](#)

we completed 32 reviews of our existing agents resellers and distributors. We take a risk-based approach to these reviews, which include external reviews, internal on-site reviews and desk-based reviews. Our procurement contracts include anti-corruption and bribery clauses. In addition all new suppliers, agents, resellers and distributors go through an on-boarding process which includes financial checks and the use of our due diligence screening tool. Existing suppliers, agents, resellers and distributors are additionally screened on a weekly basis.

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

We launched a customer due diligence tool which we use when bidding for customer contracts. It identifies human rights risks and links them to the sanctions approval process. We've run training and calls to raise awareness of the tool. We've also carried out human rights impact assessments on our operations in India, Russia and China, and have developed an overarching human rights policy for imminent launch. We reported publicly on our most salient human rights risks in our Privacy and Free Expression Report in 2015, which we're updating in 2018 to include parts of our international business. Our Human Rights Steering Group reviews our programme and discusses current issues. We've also been working closely with peers through organisations like the Business Against Slavery Forum and Global Network Initiative.

Despite our efforts, unfortunately not everyone gets it right every time. We disciplined 205 employees in the UK as a result of ethical misconduct this year, and 98 left the company^a. The most common issues related to inappropriate use of company vehicles.

Processing our customers' data

Link to strategy in year	Link to business model	Trend
Deliver great customer experience	Financial capital Social capital	

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.

We make sure our customers' data is secure, and protected against both internal and external threats (eg 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 customer data, who we share it with, making sure the way we process personal data is legal, fair and in line with customers' rights and wishes, and ensuring that we fulfil the legal obligations we have when customers want to exercise their rights under data legislation.

As a communications provider we currently operate under a stringent 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 if the incident is likely to have a significant impact on them. On 25 May 2018 EU General Data Protection Regulation (GDPR) will come into force. We are in the process of implementing more stringent procedures around data protection in order to comply with the GDPR requirements, which may lead to higher regulatory compliance costs.

An individual's fundamental right to privacy is reflected in the fact that data privacy laws are in force in more than 100 countries. The nature of those laws vary across different parts of the world. Increasingly 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.

Potential impact

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

^a UK only, excluding EE and Plusnet.

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 terminate customer contracts and the subsequent customer churn. Companies who've had high profile data incidents have seen a significant impact to their share price and suffered ongoing costs from their non-compliance.

What's changed over the last year?

The GDPR is deemed one of the biggest shake ups in data law for over a decade. It's been created to update the existing law to ensure that individuals' data is protected and secured and gives people a greater say as to how their data is used. It also increases their rights as to how their personal data is kept, used and retained by businesses. The sanctions for breaching the GDPR are significantly higher than under the previous regime, which could result in a substantial fine in the event of a breach.

Scrutiny from national regulators is increasing as companies are monitored to ensure they're working towards compliance with the new law. In addition within the last 12 months several large companies have suffered further well-publicised data incidents and the general trend towards bigger financial penalties has increased.

How we're mitigating the risks

We've created a compliance programme to review all activities that involve customer data across the business in light of the new regulatory requirements. Our focus will be on protecting our systems, enhancing our operational processes to protect customer data, and refreshing our training so that our people understand the importance of the data they handle.

We also 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

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sure everyone understands privacy issues from the start and builds in the right controls, without any operational impact.

The Chief Privacy Officer and her team champion privacy awareness, and are responsible for undertaking monitoring and

assurance to make sure data compliance is embedded within the business.

Our mitigations against cyber attacks are described in our Security and resilience risk (page 66).

Health, safety and wellbeing

Link to strategy in year	Link to business model	Trend
<p>Deliver great customer experience</p> <p>Transform our costs</p>	<p>Financial capital</p> <p>Human capital</p> <p>Social capital</p> <p>Natural capital</p>	

Our people are crucial to our business and if they feel safe, healthy and happy they will perform better for our customers and our shareholders. Working to reduce the risk of harm to our people helps us comply with health and safety laws wherever we operate.

Many of our people, especially our UK engineers, work for much of the time in community settings where we have limited control over the working environment. Much of the network is carried above ground level and temporary work at height is a major risk for us – over the course of a year our people will undertake millions of climbing jobs. All of our people work in a fast-paced and highly competitive sector where change is constant and psychological pressures are significant. Managing physical and psychological hazards is therefore complex.

Potential impact

We work to make sure our people go home safely every day. Any health and safety failure could result in injury to our people or members of the public, financial penalties, and/or reputational damage.

The wellbeing of our colleagues is important if we're to transform our business while continuing to recruit, retain and engage our workforce to deliver a great customer experience and grow the business. An adverse reaction to change could impact talent retention, resulting in a loss of critical skills and greater need for external recruitment, which would add cost to the business. Poor engagement also raises the risk of general industrial unrest and action.

What's changed over the last year?

Changes in technology and working practices help to reduce the physical risks to our people. For example, the shift from copper to fibre in the network means our work involves less heavy manual labour, reducing the risk of musculo-skeletal disorders as a result. Conversely, people increasingly seek to attribute common health problems to past work activity with the aim of securing compensation, and the regulatory environment is getting harsher.

In parallel, a change in our workforce is increasing risks in areas such as driving. We've had a mature workforce with little labour turnover for many years. That cadre is reaching retirement age at the same time as demand for our products and services is increasing, and so we're recruiting large numbers of younger people. The new intake has a different risk attitude, combined with less experience, so we need to make sure we put in additional safeguards with less reliance on expertise and individual judgement.

The pace of upgrading the network, fixed and mobile, has continued to accelerate. That increases our civil engineering workload and the hazards and risks associated with that type of work. The Grenfell Tower fire has raised awareness of fire

issues – we've reviewed cladding across the BT estate and we're examining a range of other aspects of fire safety.

The pace and scale of change within the business has also continued to accelerate and we're aware this has a psychological impact on our people. The risk of epidemic disease is constant; this year our main focus has been on pneumonic plague and influenza.

How we're mitigating the risks

We've got a companywide and Board-endorsed health, safety and wellbeing strategy which has been refreshed this year. The Board receives a bi-annual report which tracks key performance indicators and which forms the basis of a discussion of emerging issues. The strategy is cascaded through the chief executive to the operational businesses, each of which formulates its own plans and targets on an annual basis.

At an operational level, our 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. Progress is monitored by a companywide health, safety and wellbeing forum chaired by the Group HR Director. Professional input is provided through a central centre of expertise which supplements advisers in the operational units.

This year we've completed a liability review and a material controls audit, both of which highlighted competency, accreditation and assurance as areas for attention. We're undertaking a comprehensive revision of our health and safety training, with an emphasis on higher-risk activities. We make sure that training is externally accredited where possible and we're extending the accreditation of our management systems where appropriate. We've adopted a three lines of defence approach and we're enhancing our first and second lines of assurance as a result of audit recommendations. We're procuring a new IT system which will help us better capture and share information.

We provide comprehensive support to our people to enhance their wellbeing. We provide extensive guidance on promoting good physical, psychological and emotional health. We launched this year a major programme on healthy

change management. We train our managers to identify the early signs of distress and how to deal with them. This year we've supplemented that with a peer support scheme that uses our people's experience of mental ill health to help their colleagues. We provide funded treatment services for mental health and musculo-skeletal disorders and have achieved a 95% rehabilitation rate.

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Our principal risks and uncertainties continued

[Strategic and financial risks](#)

Competition and technology risks

Link to strategy in year	Link to business model	Trend
Invest for growth	Financial capital Intellectual capital	

Our markets are characterised by intensifying competition from established players and new entrants. This competition compounds some of the external challenges that we see in the market place, notably:

fixed broadband and mobile connectivity nearing saturation, with most segments of the UK telecoms markets now growing below the rate of inflation

customers seeking fast migration from higher-margin legacy products to fully digitised, converged, secure, faultless solutions

efficient markets demanding clear differentiation for premium pricing, driving price deflation of basic connectivity and data

high exit barriers, prolonging and intensifying competition even when selected companies in the sector are struggling to generate economic returns.

Technology change is also a key characteristic of our sector. We need to be able to identify emerging technologies, assess how customers will adopt these technologies, and invest accordingly, frequently a long-time before the demand materialises. We also need to respond to changes in the use of existing technology, such as the exponential growth the

sector has seen in data consumption and network capacity requirements.

Potential impact

Intensified competition can result in lower volumes and/or prices than we currently forecast. If we do not respond effectively to competition then we can lose market share, revenue and/or profit.

In addition, new technology developments can lead to accelerated obsolescence of our current products, increased investment requirements, new sources of competition and/or the deterioration of our competitive position. This in turn can result in lower volumes and prices, stranded assets and higher costs. A failure to invest optimally in technology today can have implications for our market position and ability to generate future returns.

What's changed over the last year?

Set against a challenging economic climate, in which the outlook for the UK economy has deteriorated, our leading competitors have been very active over the last 12 months. Important developments included:

a move into fibre through a partnership with an existing provider

expansion of existing UK fibre networks

the launch of zero-rated mobile data propositions.

Technological developments and changing customer preferences also continue to create risk to our business model. For example:

While mobile data usage continues to grow, prices per gigabyte of network traffic have continued to fall. The ongoing profitability of our mobile operations hinges on our being able to successfully monetise mobile data growth in the face of strong competition.

Support for a large-scale deployment of FTTP infrastructure among key stakeholders has increased. However, there is still material uncertainty as to whether a viable economic case can be found for large-scale deployment. The economic case for FTTP remains challenging given superfast broadband coverage now exceeds 90% and the majority of end users are currently only willing to pay a low premium for additional speeds.

How we're mitigating the risks

We've evolved our strategy to reflect this environment, with renewed focus on:

delivering differentiated customer experiences

investing in integrated network leadership

transforming our operating model.

We believe this is the best way for us to stay ahead of our competitors and to generate long-term, sustainable value growth. We're also working with stakeholders to help develop an environment that both encourages and facilitates investment in a large-scale FTTP environment.

We also keep a close eye on technology developments that could impact us achieving our strategic goals, including through our Board Technology Committee. This committee, chaired by the CEO, agrees our technology strategies, monitors emerging trends and oversees technology risk management across the group.

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Communications industry regulation		
Link to strategy in year	Link to business model	Trend
Deliver great customer experience Transform our costs	Financial capital Manufactured capital	

Regulation affects much of what we do.

In the UK, where Ofcom identifies competition concerns in communications markets, it can set rules requiring us to provide certain services on specified terms to our customers. Ofcom reviews markets regularly and can introduce, extend, relax or remove rules as a result of its findings. It has powers to conduct specific investigations about market behaviour, including price levels. In addition, Ofcom can set out rules for spectrum auctions and to ensure consumer protection in the sector.

Ofcom will investigate our compliance with regulatory requirements and can impose fines and restitution on us if we fail to comply.

Following the Government’s rejection of our voluntary commitment, a broadband universal service will now be delivered through a regulatory obligation. We acknowledge the impact that this will have on industry and the risks attached to a regulatory broadband USO. We will work hard with Ofcom to find a solution that works for our customers and society, and that minimises the distortions for industry.

Ofcom also has powers to regulate the terms on which we’re supplied with certain services by others – for instance, mobile call termination – and can sort out disputes between us and other communications providers about the terms on which services are supplied. Appeals of regulatory decisions also give rise to risks (and opportunities).

Outside the UK, regulation defines where and how we are able to compete through licensing rules and defining the terms on which we are able to access networks of incumbent operators.

Potential impact

Some of our revenue comes from supplying wholesale services to markets where Ofcom has found us to have significant market power. Most of this revenue relates to services where regulation requires 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 is a risk that Ofcom may set the prices at which we supply services, make us provide additional services and/or impact how we structure our business. 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?

Ofcom has concluded market reviews in relation to wholesale narrowband access, wholesale local access and wholesale

broadband access. They have also decided not to impose a temporary remedy requiring BT to provide a restricted form of dark fibre (at and below 1Gbit/s) in the leased lines markets, but will consider this again in their upcoming business connectivity market review. We have summarised this on page 52.

We successfully appealed Ofcom's Business Connectivity Market Review (BCMR) statement to the Competition Appeal Tribunal which found in our favour and remitted the decision back to Ofcom. It has also started its next market review on BCMR.

In the retail market, Ofcom also expressed concerns in relation to the prices charged to voice-only customers. We've responded to Ofcom's concerns by agreeing to cut those prices. We've also introduced an automatic compensation scheme for slow repairs, missed appointments and delayed installations. Ofcom has also revised the General Conditions and the changes will come into force in October 2018.

Alongside the standard cycle of market reviews, we've been working hard to deliver on the Commitments made to Ofcom in March 2017 as part of its Digital Communications Review. We've made significant progress in this area, and have now introduced changes to our internal processes to ensure that we comply with both the letter and spirit of the commitments.

How we're mitigating the risks

We have a strong team of regulatory and policy specialists. Together with legal experts, compliance and operational teams they guard against potential risks and look for opportunities to positively shape the regulatory regime at the right time and in the right way. They engage regularly with regulators, government, consumer organisations and other key stakeholders to build trust and to understand their outlook. They communicate our positions in a clear, consistent and straightforward way. Their insight also helps us to forecast future regulatory outcomes. We can then build sensible assumptions into our financial plans and investment decisions.

We push for clear, predictable and proportionate regulation that enables BT to succeed by delivering what customers and society want. Whenever there are market reviews, charge controls, disputes or investigations, we submit evidence and analysis. This helps us manage the risks around decisions in any particular year.

We can judicially review regulatory decisions and appeal to the Competition Appeal Tribunal. We can also raise disputes or complain (under the relevant regulatory framework or competition law) where we have problems getting access to wholesale services 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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[Our principal risks and uncertainties continued](#)

[Strategic and financial risks continued](#)

Political risk

Link to strategy in year	Link to business model	Trend
Deliver great customer experience Invest for growth	Financial capital Human capital Social capital	

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, political debate continues to focus on network coverage, quality and speed of service, as well as broader issues of online safety and security. As well as providing a critical element of the UK's national infrastructure, both fixed and wireless, we're 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) significantly increased political uncertainty. This continues to impact political debates around the United Kingdom, such as the possibility of a second Scottish Independence referendum and the complex situation in Northern Ireland including border matters.

Outside the UK, political and geopolitical risk can impact our business through changes in the regulatory and competitive landscape – an example is the US Administration's changed approach to trade policy – but also as a direct threat to our people and assets as a result of social unrest or a breakdown 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're 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 trading and transition relationship with the EU is determined, albeit the agreement in principle on a number of withdrawal measures was welcome, notably the commitment to protect the rights of EU citizens living in the UK and vice versa. 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 or other processes. Our regulatory risk could increase if there were to be future divergence with the EU regime. Our suppliers may face disruption as a result of challenges in their own organisations and supply chains. Also, delivering a great customer experience and great network will become more challenging if it is harder for us to recruit and retain skilled talent and to source sufficient construction workforce. The UK economy may also suffer as a result of this uncertainty.

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?

This has been a complex year, given the 2017 General Election, EU Withdrawal Bill, Brexit negotiations and other policy measures. A second Scottish Independence Referendum became less imminent as the SNP has a significantly reduced number of Scottish seats (albeit a majority still). In December 2017, the Government reached agreement in principle with the EU on divorce measures around people, money and Irish border principles; negotiations early in 2018 focused on finalising withdrawal issues and also moved on to transition and trading arrangements. What trading relationship the UK/EU will end up with and by when is unclear.

In the UK, the conclusion of Ofcom's Digital Communications Review (DCR) has resolved some of the uncertainties that affected BT 12 months ago. The agreement we reached with Ofcom at the conclusion of the review has led to the creation of a new, independent board for Openreach, which is working well. Openreach is doing its own independent work to plan its fibre rollout, in open consultation with the rest of the industry. The Government has now established a Future Telecoms Infrastructure Review, which we hope can provide additional certainty for companies and investors about how the policy and regulatory framework can promote long-term decision-making and, as a consequence, underpin future 5G and fibre deployment.

How we're mitigating the risks

We maintain strong engagement with the UK Government, key departments, MPs, peers, the media and with business and consumer bodies. We also engage closely 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 our role within it.

As explained in the case study on page 63, we've progressed the programme across the business to help us understand and manage the risks associated with Brexit. This also considered other potential impacts such as those associated with a second Scottish Independence referendum, and the border questions on the island of Ireland, and is led by a steering group chaired by the group CFO. We've also offered our views to Government, Parliament and business groups on related policy areas, such as R&D, data flows, trade and people/skills matters.

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 fairly regulated way for the benefit of customers and competition. Geopolitical risks are closely monitored, with our security and business continuity teams particularly focused on protecting our people and our assets.

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[Strategic and financial risks continued](#)

Pensions

Link to strategy in year	Link to business model	Trend
Transform our costs	Financial capital Human capital Social capital	

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 next valuation of the BTPS is scheduled to take place as at 30 June 2020 and an increase in the pension deficit may have an impact on the level of deficit payments we are required to make into the Scheme. Indirectly it may also have an adverse impact on our share price and credit rating.

Any deterioration in our credit rating would increase our cost of borrowing and may limit the availability or flexibility of future funding for the group, thereby affecting our ability to invest, pay dividends or repay debt as it matures.

What’s changed over the last year?

The actuarial valuation of the Scheme as at 30 June 2017 was announced in May 2018. This provides certainty over the level of cash contributions required until the next triennial valuation is concluded, taking place no later than as at 30 June 2020.

As part of the actuarial valuation, we discussed the Scheme’s approach to investing assets with the Trustee. The resulting changes should help protect the BTPS from volatile investment returns and high inflation by investing in a way which provides greater certainty over the Scheme’s ability to meet benefit payments over the longer term.

When a valuation is calculated, the funding position is affected by the financial market conditions at the valuation date. When determining expected future returns on the Scheme assets,

different factors are taken into account, including yields (or returns) on government bonds. If assets returns are lower than expected over the period to the next valuation, or a lower future investment return assumption is adopted at the 30 June 2020 valuation, the deficit would likely increase, potentially leading to a higher level of future deficit payments.

In March 2018, we announced the closure of Sections B and C of the BTPS to future benefit accrual (which represents more than 99% of the BTPS active membership), having reached agreement with the relevant Unions. Although we will establish a new hybrid pension arrangement for non-management employees in the BTPS at closure, the changes reduce the financial risks associated with providing future defined benefit pension accrual. We currently expect to close Sections B and C of the BTPS from 30 June 2018 when employees will join the BT Retirement Savings Scheme, our main defined contribution arrangement, for future pension accrual.

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 partly 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 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.

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Transform our costs

Financial capital

Invest for growth

Social capital

In common with other major international businesses, we're 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?

We continue to face the same treasury risks as in financial year 2016/17.

From a taxation perspective, our business continues to evolve rapidly, creating different tax consequences, for example the bringing together of EE and the BT Consumer customer-facing units, the Openreach industry consultation on large-scale FTTP, and a review of our pension provision. During the year, new UK legislation was introduced, which restricts deductions for interest expense and which reduced the ability to offset profits with prior year losses. Accounting changes can also have tax consequences, for example, forthcoming changes to accounting for revenue from contracts with customers and accounting for leases. Global tax rules also continue to evolve, for example the OECD's Base Erosion and Profit Shifting project, US tax reform, the European Commission's challenge to tax practices under state aid provisions, and EC and UK proposals for the introduction of an interim digital services tax. All these change 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 suitably qualified professionals to manage and assure the operation of this framework. We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to agree an outcome with a tax authority or through litigation. Nevertheless, we always seek open and constructive working relationships with tax authorities worldwide, engaging reputable independent advice where required.

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Our principal risks and uncertainties continued

Operational risks

Security and resilience

Link to strategy in year	Link to business model	Trend
Deliver great customer experience	Financial capital Intellectual capital Manufactured capital	

Our commercial success is firmly rooted in our reputation for the security and resilience of our services. So we strive to maintain the highest standards of protection and incident management in order to confront the natural perils, network and system faults, and malicious acts that threaten our operations.

By monitoring cyber attacks on our networks and systems and our peers and customers, we see that hacking tools, phishing scams and disruptive malware are becoming more sophisticated and yet more accessible to attackers. In response, we continue to develop our cyber defence capability and invest more in automatic detection and prevention systems. We recognise that services can also be interrupted by events such as supply chain failure, software changes, equipment faults, fire, flood, infrastructure outages and sabotage.

Potential impact

The consequences of security and resilience risks can include 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?

Cyber attackers are learning how to defeat conventional defences such as Anti-Virus (AV), proxy servers, and basic authentication. They are changing malware signatures faster than AV vendors can deliver matching identity files, launching Denial of Service (DoS) attacks that are disguised as legitimate traffic at the application level, and using increasingly convincing phishing emails to trick users into giving access to restricted systems. The growth in ransomware attacks has made headline news and caused significant disruption to some of our corporate customers, but we have so far managed to avoid such consequences. Our incident management teams are gaining experience from these events and applying lessons learned to improve our responses. We're also helping customers by sharing this expertise.

We've increased the use of Artificial Intelligence (AI) in our cybersecurity operations to process the vast amount of data available. We use our own Saturn system to visually filter the information and help our analysts perform investigations. We're trialling further AI innovations that will detect network anomalies in large volumes of data, and learn patterns of how malware propagates.

Looking at other drivers of service interruption, 2017/18 has been relatively benign for the UK in terms of extreme weather events. However, accepting that the risk is increasing, we've continued to enhance our overall flood/storm preparedness. We've also been working with the Government and other utilities in planning for a 'Black Start' (major shutdown of the national power transmission system) scenario.

How we're mitigating the risks

We're making risk improvements involving people, processes and technology - prioritising the work according to our assessments of security and resilience exposure. The proportion of our network and systems that is monitored and logged continuously is rising steadily, and the security awareness of our employees is being enhanced by advanced training modules and mock phishing exercises.

Segmentation of our IT estate at the data centre level is now complete, and we're turning our attention to micro-segmentation at the applications level as we provision new cloud-based systems. The results of 'Red Team' exercises by our ethical hackers are driving improvements across BT, particularly where access controls are found to need upgrading. We've also been tightening our control of sensitive personal data in preparation for the EU GDPR. This has prompted significant improvements in our IT inventory, which in turn makes it easier to manage major cyber incidents.

Mobile, geographically dispersed, emergency response capabilities are now operating at full designed capability. We've built on our site-specific flood defence plans, and completed specialist flood surveys of our most critical at risk assets, with a view during 2018/19 to deploying permanent flood defences as appropriate.

Members of our Emergency Response Team were deployed to the Caribbean to utilise their skills in providing emergency communications in response to hurricanes Irma and Maria. They were also able to use our improved approach to supporting community isolation situations in assisting the emergency services following the Grenfell Tower tragedy.

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Employee engagement

Link to strategy in year

Deliver great customer experience

Link to business model

Human capital

Trend

Our people are central to everything we do and 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 inclusive and enjoyable workplace so that our people can thrive as part of a dynamic business. Great employee engagement is necessary to ensure we meet our strategic aims.

Potential impact

We need to transform our business while also continuing to recruit, retain and engage our workforce to deliver a great customer experience and grow the business. An adverse reaction to change could impact talent retention resulting in a loss of critical skills and greater need for external recruitment, which would add cost to the business. Poor engagement also raises the risk of general industrial unrest and action.

What s changed over the last year?

We limited pensionable pay increases for some members of the BT pension scheme and subsequently initiated a review of our UK pension arrangements. Following the review, we decided to close the BTPS to ensure that our pension arrangements are fair, flexible and affordable for both employees and BT, which included enhancements to our defined contribution pension scheme.

We continue to work through the people implications of making Openreach a separate legal entity in response to the outcome of the Digital Communications Review. We also announced the creation of a new Consumer team that brings together the BT Consumer and EE businesses.

How we re mitigating the risks

We ve undertaken extensive consultation with unions, works councils and employee representatives as part of a comprehensive global engagement strategy designed to engender positive employee relations. We help employees understand the reasons for change and the impact it may have on them, while also working to protect service to

customers.

The review of pension arrangements includes a proposal to enhance our defined contribution pension scheme to help provide an adequate income in retirement for all of our employees. We've continued to streamline our management structure to move decision making closer to the frontline customer teams and speed up the decision-making process to deliver better customer outcomes. We've also simplified our performance appraisal process, reducing the frequency of assessment and the number of performance categories to free up time for line managers to talk with their people and focus on developing their capabilities.

Change management

Link to strategy in year	Link to business model	Trend
Deliver great customer experience Transform our costs Invest for growth	Human capital	

We are implementing a wide-ranging change programme across the entire organisation known as One BT. We need to continue to deliver differentiated customer experiences, whilst being able to have the financial capacity to invest in integrated network leadership. At the same time, we want BT to be a simple and agile business where our people can thrive.

In transforming our operating model, we need to manage this change carefully to ensure it delivers the desired outcomes. We recognise that such extensive change can also be a distraction and can cause uncertainty amongst our colleagues, so it's important that we keep focused on delivering for our customers.

Potential impact

If we do not manage our change programmes carefully then they will not deliver the business outcomes that we are trying to achieve. That could result in poorer customer experiences, negative impacts on employee engagement, or potential overspend on the projects themselves, and at the end of the programmes we may not have achieved the efficient processes needed to deliver a great customer experience, the desired cost savings, or differentiated products and services we were trying to launch.

As we describe elsewhere in the Annual Report, we've been working hard on improving our customers' experiences, and have

seen significant improvements over the last year. If our transformation programmes do not deliver their intended customer benefits, or divert colleagues' attention away from serving our customers, then we may suffer a reduction in the quality of the service we provide, and as a result incur customer churn and even financial penalties in some cases.

What's changed over the last year?

Over the past year, our key changes have included:

the launch of a pan-BT transformation programme, One BT, which is designed to help our businesses deliver to their full potential

bringing together BT Consumer, EE and Plusnet into a new Consumer business

ongoing work to deliver a new Digital Global Services

announcing the integration of our Wholesale and Ventures and Business and Public Sector businesses into a new Enterprise business

announcing our plans to introduce a new People Framework, which will include a particular focus on our middle and senior- management grades

as we describe elsewhere in the Annual Report, we've also been making changes to our Openreach business to implement Ofcom's Digital Communications Review.

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[Our principal risks and uncertainties continued](#)

[Operational risks continued](#)

How we re mitigating the risks

We apply a formal structure and governance to our key change programmes – for example, One BT has a full-time Programme Office and a Transformation Committee. Change programmes are also supported by our Customer and Enterprise Transformation team. By bringing together several transformation teams into one, we are able to ensure that our internal change programmes are coordinated and remain focused on delivering for our customers. The Customer and Enterprise Transformation team tracks programme delivery against targets for the Transformation Committee, *Executive Committee* and Board. The Transformation Committee meets weekly to make key decisions and to set the pace of change.

We recognise the importance of having the skills, capabilities, methods and tools to define and deliver change in the right way. So we’ve developed a new change approach, and have put in

place an expert team that is building capability and providing direct support to HR, communications, change teams and our leaders in the business.

We’ve also maintained a close focus on our people and our culture, launching a number of specific and focused leadership capability development programmes to help our leaders manage their people through a period of extensive change whilst also delivering the best possible customer experiences.

Organisational change can cause uncertainty amongst colleagues, and we communicate closely with our unions and works councils in designing, announcing and implementing changes. Our engagement strategy allows us to monitor employee engagement on a regular basis, informing any interventions that we feel necessary.

Supply chain

Link to strategy in year	Link to business model	Trend
Deliver great customer experience Transform our costs	Financial capital Social capital Human capital Natural capital	

We operate in a global supply market. Our supply chains range from simple to very complex. It's critical to our operations that we can guarantee their integrity and continuity.

Global markets expose us to global risks, including different standards in labour, environmental and climate change practices, increasing regulation and geopolitical events. We weigh up the impact and likelihood of external market forces on our suppliers' ability to support us.

Globalisation 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 or regional economic interests.

Our dealings with suppliers follow our trading and ethical policies. From the way we choose them, to the contracts we sign and how we pay them. For more detail, see page 49.

Potential impact

If something goes wrong in our supply chain, the speed and scale of impact can vary. We need to determine the potential damage to customer experience, the likelihood of higher costs and the potential damage to our brand. If substituting a failing supplier meant that we had to disrupt our business, it could cost us a lot of time and money. If we couldn't find an alternative supplier, it might compromise the commitments we make to our customers, which could in turn lead to breach of contract, lost revenue or penalties.

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

If we don't meet the expectations of regulators that govern us and the data we manage, it could result in significant penalties. In the case of EU General Data Protection Regulation 2018, this could amount to 4% of our global annual turnover.

What's changed over the last year?

We dedicate time to assessing emerging geopolitical threats and the impact they could have on our supply chain. These include the impacts of the UK leaving the EU in March 2019; the threat of modern slavery and human trafficking; and the growing threat of cyber attacks on our systems and networks.

We continue to monitor the trend for mergers and acquisitions in some of the global markets we do business in. It highlights the risk of us becoming too dependent on single or monopolistic suppliers. We also try to make sure that suppliers do not become too dependent on us. Both scenarios are unhealthy for our business.

This year one of our more significant suppliers, Carillion, went into liquidation. However, by implementing our risk and governance arrangements we were able to manage and reduce the disruption to our business.

How we're mitigating the risks

We have a few really critical suppliers. We keep a close watch on our relationships, their performance and their 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 amount of 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. The standards we apply to our suppliers are available on selling2bt.bt.com

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.

We're also continually looking to improve our response to disruptive events.

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Major contracts

Link to strategy in year	Link to business model	Trend
Deliver great customer experience	Financial capital	
Transform our costs		
Invest for growth		

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, managing customer networks and developing new technologies. Delays or missed milestones might have an impact on us recovering these upfront costs. There is a substantial performance risk throughout the term of 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 highest profile contracts is providing a key element of the UK Emergency Services Network (ESN) on our EE mobile network. The complexities described above all apply to this programme. This service is delivered with several partners and managed by the Home Office. The Home Office has delayed the launch date and further delays will impact the expected income. Furthermore, the criticality of this service increases our risk exposure once it is live, and given the network provides emergency services communications for the UK, performance in life of the network

could have reputational consequences for BT.

We're continuing to deliver 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 reinvest or repay grant funding depending on lots of different factors – including how many customers take up a new service.

What's changed over the last year?

We have extended our 'Gold Standard' quality programme to our Contract Accounting and financial management activities. Our major contracts are assessed against strict 'gold standard' criteria and those contract teams below the benchmark will be developed/ coached for improvement in order to attain the standard.

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 asking for more flexibility in their contracts.

The majority of our first phase of BDUK contracts have now completed their deployment commitments. We're now nearing the contractual end dates of the second phase of contracts (SEP). In addition, we have further extended numerous existing contracts and begun deployment of the third phase of contracts. While these later phase 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% of households.

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 corporate unit 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 supports 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. In 2017/18 we introduced a Gold Standard sustainability measure to ensure our contracts continue to operate at the highest possible standard.

We continue to invest 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. We're also investing and growing our contract management expertise through the provision of accredited contract management training.

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Our principal risks and uncertainties continued

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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 20 to 34.

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 increased 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 180 countries worldwide.

Our strategy of delivering differentiated customer experiences, investing in integrated network leadership and transforming our operating model 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 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 customer-facing units, 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 customer-facing units against these forecasts is monitored monthly and this is supplemented each quarter through a series of Quarterly Business Reviews performed by the *Executive Committee*.

Beyond our Medium Term 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 reviewed by the *BT Investment Board* and, where appropriate, the *Executive 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 C2.2 of the 2016 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 2021. The Board believes this is an appropriate

timeframe as it aligns with the primary focus of our business planning and the underpinning time cycles of a number of our principal risks: for example the pension scheme funding valuation and Ofcom's market review cycle.

In support of this statement we've 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've adopted a number of assumptions designed to stress test our resilience. For example, in making our assessments of the impact and likelihood of our risks, we've only taken into account the control activities that we have in place today. We've not factored in any of the extensive future mitigation activity that we're undertaking to address these risks, thereby assuming such activity proves ineffective. While we do not expect this to happen, we've adopted these pessimistic assumptions to add greater stress to our viability testing.

We've 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.

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BT Consumer and Plusnet (our value brand) connect customers to information, entertainment, friends and family, 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.

BT Consumer and Plusnet both provide home phone, broadband, TV and mobile services. EE do too (page 82).

BT Consumer brands

BT Consumer sells products and services from 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 later in this section. Figures for mobile (also reported at group level) are in the EE section on page 80.

We sell a wide range of devices including phones, wi-fi extenders and baby monitors via high street retailers and our website.

Sustainability is important to us; we work closely with suppliers to make our products and business as sustainable as possible, from the first link in the supply chain through to our customers.

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

We employ around 9,000 full-time equivalent people. Roughly 6,500 of these directly help customers in our contact centres.

Markets and customers

Our broadband (copper and fibre) products are available to more than 99% of UK premises; our home phone and mobile services are available to all. Anyone with fast enough BT broadband can get BT TV.

Wholesale: Fixed network services

The UK consumer communications market is highly competitive. In December 2017, Ofcom found that UK prices for communications and TV services compared well to international benchmarks. In 2017 the UK ranked third overall among six comparator countries (France, Germany, Italy, Spain, UK and the US) and second for prices for triple-play bundles.

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

BT retail market share

- ^a Home phone includes BT Consumer and EE analogue and ISDN channels (WLR), including customers in Northern Ireland and Plusnet.
- ^b Retail broadband – BT 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 TV, YouView or EE TV box registered and enabled to receive video on demand including YouView from Plusnet.

Home phone

According to Ofcom, the number of home phone lines in the UK was 26.7m in December 2017.

But people are increasingly using mobiles, voice over IP or instant messaging services instead of landlines. The number of minutes of home phone calls made in 2017 fell by 19% year on year to 35bn.

Broadband

There were 26m fixed broadband (home and SME) connections in December 2017, an increase of 2.1% from the previous year. Superfast speeds are available to 95% of the UK.

TV and content

There are roughly 18m pay-TV subscriptions in the UK. Subscription video on demand (SVoD) content providers like Netflix and Amazon Prime are becoming increasingly popular. They usually complement traditional pay-TV rather than replace it – Ofcom found that 74% of SVoD users had pay-TV too.

Mobile

We describe the UK mobile market, including BT's overall position, in the EE section of this report which starts on page 80.

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Our customer-facing units continued

[BT Consumer continued](#)

Products and services

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

Home phone

Our range of home phone products and calling plans lets our customers pick the right service for them. We offer unlimited calls, and add-ons like discounted international calls or calls to mobiles.

Here are a few examples of BT Consumer home phone services:

BT Basic – discounted line rental and inclusive calls to people on certain state benefits. We're the only company to offer this service in the UK.

BT Call Protect – a free service for customers which diverts nuisance calls to a junk voicemail box. We've now diverted more than 90m nuisance calls.

Discounts for standalone voice customers – this year we agreed with Ofcom to cut the price of line rental for BT home-phone-only customers who don't have broadband with BT or anyone else. From 1 April 2018 this line rental is £11.99 a month.

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

Broadband

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

Two examples of our broadband services are BT Broadband Unlimited (speeds up to 17Mbps) and BT Unlimited Infinity 2 (speeds up to 76Mbps). In January 2018 we launched two new Ultrafast Fibre packages with speeds of up to

152Mbps and up to 314Mbps. Both come with a speed guarantee of 100Mbps, backed by £20 compensation.

To supercharge their home wi-fi, customers can buy Whole Home Wi-Fi. It uses an intelligent network of three wi-fi repeaters to extend connectivity to every corner of the home – automatically switching to the fastest, strongest and most reliable signal. We launched on the high street in December 2016 and by the second half of 2017/18, sales reached nearly 50% of the market by value, outperforming brands like Google and Netgear.

Our broadband packages also include:

BT Wi-fi – free, unlimited wi-fi access at around 5.9m UK hotspots

BT Cloud – secure online and on-the-go access to data and photos

BT Web Protect – security tools to help keep customers and their families safe online. We offer special support to vulnerable customers and work with industry groups like Internet Matters to promote internet safety. Plusnet broadband is sold three ways with three different download speeds – unlimited with up to 17Mbps; fibre unlimited with up to 38Mbps; and unlimited fibre extra with up to 76Mbps.

EE broadband offers three similar products.

BT TV is available exclusively to our broadband customers. They can watch via a choice of three YouView set-top boxes (non-recording, recording and 4K UHD).

TV content includes programmes for the whole family from all the big Hollywood Studios; AMC (a BT UK exclusive), Sky, BT Sport and Netflix. We aim to offer a selection of the best pay content at attractive prices.

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BT TV comes in three different packages

Starter + BT Sport

Up to 80 Freeview channels, BT Sport channels, AMC and BoxNation plus BT Store for renting or buying movies and shows. Includes a non-recording set-top box and access to apps like BBC iPlayer, All 4, ITV Hub and My5.

Entertainment

Includes up to 99 channels, as well as a set-top box which can record up to 300 hours of programmes, pause and rewind live TV, and access seven days worth of catch-up TV. Includes BT TV app access.

Max

More than 140 channels, including 21 in HD. Also includes extra recording space on the set-top box, BT Kids TV and BT Sport in 4K Ultra HD.

This year we launched an award-winning TV user interface to make it even easier for customers to find their favourite programmes. There's also a companion BT TV app so they can watch shows when they're out and about.

Plusnet TV is available to Plusnet's fibre customers. It includes over 70 Freeview channels, plus BT Sport and popular pay-TV channels.

EE TV provides more than 70 Freeview channels, as well as pay-TV channels and access to a number of apps.

BT Sport

The BT Sport channels are available on BT TV, the BT Sport App (to BT, Plusnet and EE customers), Sky and TalkTalk. Virgin Media TV customers can also access BT Sport. There's a discount on BT Sport for current BT broadband customers, and an even bigger discount if they take BT TV too.

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

BT Sport is the exclusive live broadcaster of the UEFA Champions League and UEFA Europa League in the UK. And it has the rights secured until the end of the 2020/21 season.

In January we won Premier League rights for a further three years until the end of 2021/22. We also broadcast FA Cup, FA Women's Super League and Scottish Premiership games. As well as football, BT Sport covers sports like

Aviva Premiership Rugby, MotoGP, WTA tennis, Cricket Australia, UFC and boxing. This year, we broadcast over 13,000 hours of live sport.

Innovation is intrinsic to our strategy at BT Sport. Our coverage of the 2017 UEFA Champions League final was the UK's first-ever live 4K broadcast on YouTube.

We also achieved a world first by covering the live match using High Dynamic Range (HDR) technology in ultra-high definition with Dolby Atmos sound.

And on YouTube and the BT Sport app we screened the match in 360-degree virtual reality (VR) for the first time. Within the app viewers could choose between a 360-degree produced programme or pick their own camera viewpoint.

In January we added HD streams to the BT Sport app for all our sport customers too. Both the app and Ultra HD channel have won awards for innovation.

BT Mobile

BT Mobile is available SIM-only or with a service plan and choice of market-leading phones. Our broadband customers get a £5 a month discount on mobile service plans. There's also BT Family SIM which lets customers buy two or more SIM cards at a discount.

We launched Wi-Fi Calling in March 2018 so customers can text or call over wi-fi when they can't get a mobile signal (one of their biggest bugbears).

Plusnet offers SIM-only mobile plans at different prices. Plusnet broadband customers get mates rates packages with extra mobile data.

Performance in the year – strategic

Customer experience is still our top priority

Delivering great customer experience

This year we've continued to make important investments in customer care. We are seeing progress.

Customer care is getting better. The Institute of Customer Service ranked BT within the top 15 most improved organisations this year.

This is because of the money we're spending on improving our systems. They are now being used by 6,000 advisers and are improving the number of faults we fix and speeding up the time it takes to do it.

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Our customer-facing units continued

[BT Consumer continued](#)

Customers' opinion that BT is easy to deal with was four points higher in Q4 2017/18 than it was a year earlier. Right First Time improved by 1.1%, driven by a 7% reduction in Propensity to Contact.

Simpler organisation

We've reorganised our teams around the different moments in customers' relationships with us – joining , early life and in-life support .

Thousands of agents now follow this new operating model. It's widening and deepening their knowledge and letting them own and solve issues. For more complex stuff, we've introduced bespoke, dedicated support which is helping thousands of customers a week. This has been key to cutting Ofcom broadband complaints by 18%.

New diagnostics help detect and resolve faults

We've introduced pre-emptive broadband diagnostics. This now means we can often detect and fix faults automatically before a customer finds there's a problem and gets in touch.

Getting to customers quicker

Through extra investment in people and systems, we've cut the average wait to speak to us on the phone from 103 seconds in Q4 2016/17 to 41 seconds in Q4 2017/18.

Following our customers onto digital

The number of customers using online chat has grown. It now accounts for around a quarter of interactions.

Investing for growth

This year we kept our focus on sustainable long-term growth, making several investments for the future. The table below summarises our progress on the priorities we set out last year.

Review of last year's priorities

What we said

What we did

Keeping the household connected

Move current customers from copper to fibre broadband and grow our base through acquiring new customers.	61% of our broadband customer base is now on fibre compared with 53% last year.
Launch ultrafast broadband.	Our fibre customer base has grown by nearly 800,000 to 5.7m. We launched two new Ultrafast Fibre packages with speeds of up to 152Mbps and 314Mbps.
Keep promoting BT Mobile to give existing customers more for their money.	We've significantly grown our mobile base.
	We launched wi-fi calling in March 2018.

What we said

What we did

Enhance sport and content

Provide exclusive sport giving potential customers a brilliant reason to choose BT.	We added UK and Irish international hockey and broadcast our first live boxing match with two World Championship fights.
	We broadcast the UEFA Champions League Final in 4K UHD and with 360 degree VR experience.
	On the BT Sport app we introduced free HD streams for all our customers.
Improve our customers' TV viewing experience.	We launched three new TV channels and expanded our boxset range with exclusive AMC productions.
	We launched a BT TV App for customers to watch their favourite shows on the go and record programmes remotely.
	We announced a deal to offer all of Sky Sports, Sky Cinema and Sky's most popular entertainment channels

through Now TV from 2019.

Transform customer experience

Finish deploying our new frontline systems and operating structure to simplify the way we work.

We rolled out new systems and a simpler way of working to our contact centre advisers.

We created a dedicated case management function for complex problems.

Make further investments to cut the time it takes to get through to a contact centre agent.

Wait times have dropped by more than a minute to 41 seconds in Q4 2017/18.

Transforming our costs

Costs went up 3% this year. This reflects our ongoing investment in improving overall customer experience, bringing fibre broadband to more customers and contractual sports rights increases.

To partly offset this, we cut costs by:

finding economies of scale in our network infrastructure

negotiating improved contract terms with key broadband hub suppliers

improving customer care processes to cut the number of engineer visits.

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Performance in the year **operating**

We won quite a few awards for our products and services this year.

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Our customer-facing units continued

[BT Consumer continued](#)

Plusnet also won several awards:

The section below gives figures for home phone, broadband and TV across the group.

Mobile performance also reported group-wide is in the EE section on page 84.

Home phone

As of 31 March 2018, BT Group had a combined total of 10.1m home phone customers, at 31 December 2017 we had 38% market share.

Broadband

We held our position as the UK's largest provider of home broadband services with 9.3m customers and 36% market share.

Around 61% of our home broadband customers have fibre broadband, getting faster speeds than ever before.

TV

We have 1.7m TV customers across BT, Plusnet and EE. Around 30,000 commercial premises have BT Sport.

BT Sport viewing figures across all platforms were up 19% in Q4 2017/18. We've seen a 31% increase in the proportion of our BT Sport base engaging with the app.

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In 2017/18, our revenue went up by 3%, with particularly strong growth in mobile, broadband, TV and sport. EBITDA grew 1%, because of revenue growth being partly offset by extra investment in customer experience.

	2018	2017	2016
Year ended 31 March	£m	£m	£m
Revenue	5,066	4,934	4,608
Operating costs	4,043	3,922	3,553
EBITDA	1,023	1,012	1,055
Depreciation and amortisation	216	209	207
Operating profit	807	803	848
Capital expenditure	291	237	207
Normalised free cash flow	635	709	781

Calls and lines revenue increased 2% (2016/17: up 4%) as mobile growth more than offset lower revenue from home phones.

Broadband and TV revenue increased 4% (2016/17: 13%) reflecting both revenue and product growth in the year. BT Consumer 12-month ARPU increased by 5% to £41.7 driven by mobile and BT Sport, as well as an increase in revenue generating units per customer from 1.98 to 2.03.

Operating costs increased 3% as a result of extra investment in customer experience as we brought contact centre jobs back to the UK, a higher proportion of customers taking fibre broadband and sports rights costs – specifically the Ashes and Premier League.

EBITDA increased 1% as revenue growth in mobile, broadband, TV and sport more than offset our increased investment in customer service, fibre broadband and content.

Capital expenditure also increased by 23%, which reflects our ongoing investment in improving our network.

Launch new products and establish convergence

Launch BT Plus, bringing together the best of broadband and mobile for the whole family.

BT Plus will offer the best speeds with ultrafast broadband and the best usage allowances.

Give our customers access to the best TV content through partnerships eg Now TV.

Improve customer experience

100% of calls answered in the UK for our BT Plus customers.

Continue investing in our systems to offer personalised online interactions with us.

Increase our investment in pro-active repair.

Improve the way we communicate with customers

Refresh our advertising style to create a more personal connection with our customers.

Re-focus our priorities to sell more services to our existing customers, rather than focus on attracting new customers.

Offer BT products in EE stores so customers can experience and buy our products face to face.

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At BT we report mobile customer numbers for the whole group, including those from other customer-facing units. We have more than 29m connections, 19.6m of which are 4G.

In EE, new mobile customers all join the EE brand, but we still have a number of customers on old Orange and T-Mobile tariffs. We acquire and retain customers through our chain of around 600 shops, website and contact centres as well as through third parties like Dixons Carphone. To improve customer experience, since the end of 2016 we've handled all EE service calls in the UK and Ireland.

We have 9,600 people, with 66% directly helping customers in shops and contact centres. We were named best employer in the Sunday Times Best Big Companies to Work For 2018 awards, up from third in 2017.

Our mobile network has been independently recognised as the fastest network by OpenSignal, and best overall network by RootMetrics for the ninth consecutive time in its report for the second half of 2017. We're getting our 4G Emergency Services Network (ESN) ready for use by emergency services workers.

On 1 April 2018 the BT Consumer and EE customer-facing businesses were brought together into a new combined unit.

Markets and customers

With four mobile network operators and plenty of mobile virtual network operators (MVNOs), the UK mobile market is competitive. Of the UK's 84m mobile connections, two-thirds are postpaid.

Our main competitors are O2, Vodafone, Three, Tesco Mobile, Virgin Media and Sky. Competition for customers is boosted by third-party distributors. These businesses sell mobile services on behalf of mobile operators, from high street shops and online.

Around 94% of adults in the UK use a mobile. Over 75% of UK adults use a smartphone. According to Ofcom, 66% of mobile connections are on postpaid tariffs. And 58% of homes also have a tablet.

Smartphones are now the most widely-used device by UK adults for getting online. Consequently, total mobile data use went up 44% in 2017.

By September 2017, total UK mobile call volumes were steady at around 38bn minutes a quarter. Texts and multimedia messages were down 16% to an average of 20bn a quarter. Mobile phone services generated £3.9bn in retail revenue in the quarter to September 2017, up 1% compared with last year.

The market is dealing with some existing and potential structural changes:

increased customer expectations as we become more dependent on mobile services

huge growth in mobile data use

a continued slide in the prepaid market as customers move to postpaid tariffs

popularity of SIM-only tariffs. (Smartphones are evolving more slowly so people are keeping their phones longer.)

regulatory pressure on the prices charged to customers and other telecoms companies.
BT has a 28% share of the UK mobile market, measured by subscribers.

Mobile subscriber UK market share by operator

At 31 December 2017

Source: EE and market data.

There is more detail on our consumer home phone and broadband markets on page 73.

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Our customer-facing units continued

[EE continued](#)

Products and services

We provide mobile services in the UK, now bringing 4G to over 99% of the population, or 90% geographically. We also reach 99% of the population with 3G and 2G. We sell broadband, home phone and a TV service too.

Postpaid

We put new customers, and those renewing their contracts, on 4G tariffs. If that includes a phone, the contract is typically for 24 months. Our tariffs include a bundle of monthly voice, texts and data. Prices vary with the size of the data bundle, the device type and 4G speed. The tariffs are split into two main groups:

Essential packs for unlimited calls and texts plus tiered bundles of data over a 30-day period, at speeds of up to 60Mbps.

4GEE Max plans which combine the largest data bundles, inclusive access to the BT Sport App and roam like home calls, texts and data in more than 50 countries around the world. We also offer an annual upgrade option on selected flagship phones.

Prepaid

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

Everything packs for unlimited texts and tiered bundles of calls and data over a 30-day period.

Talk and text packs for tiered bundles of calls and text use over 7 to 30-day periods.

Data packs ranging from 100MB to 5GB over 7 to 30-day periods. Some automatically rollover unused data to the next month, so customers get a second chance to use it.

We also have a loyalty programme where customers can get extra data, calls or texts 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 brands like Apple, Samsung and Google. Or customers can use their own phone with a SIM-only plan.

Broadband and TV

We sell home phone, broadband (including superfast fibre broadband) and TV services. To reward their loyalty, our postpaid customers get bigger data allowances if they also buy EE broadband.

EE TV comes with 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 has one terabyte of storage. Customers can control it from their mobile phone or tablet via the EE TV app.

Emergency Services Network

In December 2015 we were awarded the network part of the Emergency Services Network (ESN).

Our 4G network may enable lots of applications. For instance:

ambulance crews may be able to send vital data to a hospital to help staff prepare for a patient's arrival

a police officer may be able to record an arrest on a body-worn camera and live-stream to nearby officers for support

fire and rescue crews may be able to assess a burning building based on live helicopter camera footage and digital blueprints viewed on a tablet.

We've increased 4G coverage, including building more than 100 new mobile basestations in remote areas.

We've enabled and successfully tested specific services, like push to talk, ready for the contract.

Ahead of the launch of the ESN we've been working closely with the people who'll actually use it every day. More than 500 have visited our Technology Operations Centre in Bristol. We expect the first emergency services workers to start using the network later in 2018.

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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

We're working hard to deliver the best customer experience in the UK. While we continue to make strong progress, we know there will always be more we can do.

This year we focused on four areas:

call centres we've made customer service more personal by coaching staff to be more empathetic

self-service we're always improving My EE functionality, with a new dedicated top-up tab and personalised recommendations

shops we've launched our new Showcase stores, which give a more personal and immersive experience

network we've increased 4G geographic coverage to give customers 4G in more places. We're putting customers in the centre of our decisions. We want every interaction they have with us to feel personal for example we're now using video-calling in our stores and call centres.

Thanks to these steps, Ofcom has scored us second lowest for complaints on postpaid mobile and broadband, following 25% and 54% improvements.

Our call centres are now ranked top for postpaid mobile and broadband customer satisfaction, and our net promoter scores keep climbing, up 10 points for postpaid and 16 points for broadband.

Investing for growth

We've built the UK's best mobile network. And we're still investing to stay number one.

Our 4G geographic coverage is now at 90% and we have an ambition to increase this to 95% by the end of December 2020. We're also improving more than 1,000 sites in major cities, boosting their supported maximum speeds to over 400Mbps. We're also preparing to lead the way on 5G, the next generation of mobile network technology.

Transforming our costs

We're now two years into the cost transformation programme we started after we joined the BT family.

We saved money this year by:

improving interconnect, transit and roaming rates as part of larger group deals

further improving customer self-service to cut the volume of calls into our contact centres

continuing to reduce the number of people in our head office.

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Our customer-facing units continued

[EE continued](#)

Performance in the year – operating

We report mobile customer numbers for the whole of BT Group, including those from other customer-facing units.

In last year’s report, we set out our top priorities for this year. The table below explains what progress we’ve made.

Review of last year’s priorities

What we said	What we did
Maintain network leadership.	We’ve now extended 4G geographic coverage to 90% of the UK. EE is still ranked as the best UK mobile network by RootMetrics.
Carry on improving customer service.	Our postpaid net promoter score is up by 10 points. We’ve cut complaints to Ofcom by 25% for postpaid mobile and 54% for broadband.
Deliver the EE part of the ESN contract.	We’ve been able to recognise revenues since September 2017. The first users are due to start using the network later in 2018.

At 31 March 2018 we had more than 29m connections. Here’s how they break down:

Customer base by type

000

Our postpay customer base grew by 679,000 to 17.6m, supported by growth in all BT brands. The number of prepay customers continued to fall in line with industry trends (like people switching to postpay).

Our machine-to-machine customer base was up 290,000 to 2.7m, due to success in the automotive sector.

Our base of MVNO customers was steady at 3.7m.

Customer base movements

000

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In 2017/18, our revenue went up by 4%, with particularly strong postpaid growth. EBITDA increased 17%.

	2018	2017	2016a
Year ended 31 March	£m	£m	£m
Revenue	5,294	5,090	841
Operating costs	3,941	3,934	668
EBITDA	1,353	1,156	173
Depreciation and amortisation	776	780	146
Operating profit	577	376	27
Capital expenditure	628	616	96
Normalised free cash flow	754	570	238

^a Includes EE results from acquisition on 29 January 2016.

Postpaid revenue grew by 6%, as customers paid more for bigger bundles of data, more for more pricing and we started to recognise ESN revenues.

Fixed broadband revenue was up 14%, reflecting our higher number of customers, and more customers wanting fibre broadband.

Our overall revenue growth was partially offset by an 11% drop in prepaid revenue as the number of customers fell by 20%. Monthly mobile ARPUs for the final quarter of the year were £26.0 for postpaid customers, down 1%, prepaid ARPUs were £4.8, up 9%.

Operating costs were flat because to win and keep customers in the face of increased smartphone costs we had to spend more, but this was offset by overheads savings.

Our EBITDA grew by 17%, with strong postpaid performance compensating for higher smartphone costs.

Capital expenditure increased by 2%. This was because of our work on extending 4G geographic coverage to 90%.

Normalised free cash flow went up by 32% reflecting the higher EBITDA, partly offset by increased capital expenditure.

Maintain network leadership

Keep extending 4G geographic coverage.

Get the ESN ready for use by emergency service workers.

Keep working with suppliers and partners to run live customer trials to prepare for 5G's commercial launch.

Carry on improving customer experience

Hold our top spot on call centre customer satisfaction.

Launch a new service to set up customers' new smartphones in their homes.

Add more shops as we work towards our ambition of providing 95% of the population with access to an EE store within a 20-minute drive.

Form partnerships with third parties

We'll look to work with other companies to generate new revenue streams, by using our:

shops, contact centres and billing platforms

relationships with millions of mobile customers.

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We're passionate about helping all our customers succeed – whether they're large government departments, big household names, public sector organisations, small businesses or start-ups. Our 10,000 people work locally, regionally and nationally, serving those customers wherever they are in the UK.

We have three trading units. They offer customers fixed, mobile, networking and IT services over the biggest UK fixed and mobile communications network.

Trading unit	Customers
Small and Medium Enterprises	UK businesses typically with up to 100 people, ranging from sole traders to more complex organisations (like schools and colleges).
Corporate	UK businesses typically with 100-1,000 people.
Public Sector and Major Business	UK businesses with more than 1,000 people. Multinationals who do the majority of business with BT in the UK.
	Public sector (central and local government, health, higher education, defence).
	Corporates and public sector in Northern Ireland.
	Corporates, public sector and wholesale customers in the Republic of Ireland.

Markets and customers

We have around 1.2m customers and serve over half of the FTSE 350.

Major customers include:

retailers like Debenhams

utilities like Severn Trent

public sector organisations like Surrey Police

healthcare providers like Nuffield Health

sports companies like Williams Martini Racing

construction companies like Anglian Home Improvements

financial organisations like e-sure

educational institutions like University Of Warwick.

We cover both the communications and IT Services markets. Overall we're focused on four main product markets: Fixed voice; Mobility; Fibre and connectivity; and Networked IT services.

We think these markets will converge over the next few years as technology and customer needs change. And as they do, we'll be able to grow our market share.

Public sector is a big part of what we do. But it faces continuing challenges.

Larger systems integration contracts are still being disaggregated and replaced by smaller contracts. Devolution is increasingly shifting procurement decisions and spend to the regions. There is uncertainty over Brexit. The public sector is under increasing pressure – financial cutbacks, higher service expectations, demographic shifts, and economic dynamics.

Fixed voice

The overall number of fixed voice seats in the market will keep growing. For some time, there's been a switch from traditional voice to IP Voice. Market analysts think that by 2019 IP Voice will dominate the UK business voice market in spending terms.

That's because it offers customers a combination of flexibility, cost efficiency and new features like integration with collaboration tools.

The fixed voice market is fragmented. We're the market leader competing with more than 950 resellers and fixed network operators, including companies such as Unicom, Azzurri, Colt Group, Daisy Group, Gamma, KCOM Group and O2.

Mobility

Mobility and mobile device use keeps growing. Customers use them to cut costs, increase productivity and flexibility, and get richer work experiences.

Our customers' employees are using mobile phones and technologies to work together better, not just to connect. But this is against a backdrop of increasing risks around security, privacy and compliance.

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

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Our customer-facing units continued

Business and Public Sector continued

Fibre and connectivity

We're the largest business broadband provider in the UK. Broadband services continue to migrate to fibre to meet businesses' growing bandwidth needs for higher downstream and upstream speeds. Third-party business applications are increasingly being offered alongside communications provider broadband services, typically via an app store.

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. It stretches from off-the-shelf hardware sales to large outsourced solutions.

Some areas are growing fast – like cloud services, hosting, infrastructure and security. These all present attractive opportunities for us to grow our market share.

Networking is moving from physical provision to software-based, virtual provision. And it's expanding into wide area networking through technologies like Software Defined Networking (SDN).

We think SDN will grow quickly. Customers see the benefits – faster service activation, simpler WAN management and more flexible bandwidth. This growth will boost demand for connectivity but also for hybrid networks especially (combined public and private networks).

As more businesses go virtual, networks will evolve. For example, WANs will need to become more flexible, manageable, scalable and cost effective.

Cybersecurity remains a key priority for companies; there were a lot of high profile cyber attacks in 2017.

In May 2018 the General Data Protection Regulation comes into force. Companies will have to stick to a strict set of data privacy and security measures. Another growing priority for our customers is the Internet of Things.

Competition is fragmented, with providers often focused on specific types of customer, industry or technology.

Products and services

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

The things we sell range from standalone products and converged propositions to managed services and customised solutions. Together these meet the needs of our customers, 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.

Our portfolio spans traditional and IP Voice. IP Voice services include Cloud Unified Communications, BT Cloud Phone and BT Cloud Voice which we can offer to the full spectrum of customers we serve.

Mobility

We offer a range of mobile phones and tablets, a choice of voice and data tariffs and mobile office solutions, provided over the UK's fastest 4G network.

BT One Phone is a converged proposition for businesses with a mobile workforce. It effectively creates an office switchboard in the cloud, then pushes those functions to a customer's mobile phone.

Fibre and connectivity

Customers have lots of options for internet access. They include 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 perfect for customers connecting offices together or connecting to the internet over dedicated leased lines. They buy products like Ethernet, IP Virtual Private Network services, SIP trunking (which transports voice calls over IP networks), leased lines, cabling infrastructure and local area networking solutions.

We offer value-added services to complement our fibre and connectivity offerings. These include: computing apps to get customers online and running and marketing their websites effectively; security and backup; and cloud software access via our Business Apps Store to enable them to work effectively without needing to buy extra IT resource or hardware.

Networked IT services

Our IT services team designs and delivers solutions, manages services and provides in-life support. They specialise in four areas:

end-user computing

Local Area Networking (LAN) and wi-fi infrastructure

security

data centres and cloud.

Partnerships with brands like Cisco, Apple, HP and Microsoft help to support these services.

We resell computing, networking and software products on BT Business Direct, our IT product website. It offers 20,000 hardware and software products from the world's leading IT vendors.

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Performance in the year – strategic

We continually invest in our people, portfolio and digital capabilities. This helps improve customer experience and provides a platform for us to grow.

Delivering great customer experience

We want our customer experience to lead the market. We're making good progress.

This year our Net Promoter Score went up 12.1 points. That's eight quarters of consistent improvement. Our Right First Time (RFT) measure improved by more than 5%. We are fixing faults an average of 16% quicker. And on our Ethernet portfolio, we've cut the time it takes for our customers to get their orders by 14%.

We've continued to bring our contact centres back to the UK with 86% of our people now here. The number of calls into our contact centres has fallen by 15% from last year. This is because customers need to get in touch less. When they do, we're giving them more ways to do it. And our complaints team won Team Of The Year in the UK Complaint Handling Awards 2018.

This year, we've:

launched a Business Service app, which more than 25,000 customers have downloaded

successfully completed more than 1,600 improvement actions for Major and Public Sector customers

invested in our people, completing 28,000 hours of training across sales and service on having great conversations with customers

launched the BT Smart Hub for broadband customers, with better diagnostics to help us fix faults proactively and more quickly

updated the BT OnePhone portal to make it easier for customers to self-serve

launched BTnet Express – a simplified, fixed-pricing approach for our market-leading dedicated internet access product.

Investing for growth

We continue to futureproof our cloud, connectivity, mobile and networked IT offerings. This is underpinned by our investments in digital capabilities.

This year we've launched:

BT Business Ultrafast broadband with download speeds of up to 314Mbps, upload speeds of up to 48Mbps, and a minimum speed guarantee

BT Guest Wi-Fi, to protect our customers' broadband speeds and provide extra security

BT Sport as part of the Infinity Broadband bundle

Business-grade end-point security in conjunction with Symantec

Cloud Voice SIP-Trunking within our IP Voice portfolio. This gives customers the cost benefits of IP telephony through existing on-premises equipment

SIP phones and SIP endpoints within the BT OnePhone portfolio to expand its capabilities

new Mobile Sharer plans with extended international roaming options and new mobile security management. We have continued to invest more in our digital and online capabilities. This has helped us do more business online, made it easier for customers to do business with us, and delivered a more personalised experience.

Transforming our costs

Building on last year's work integrating EE with Business and Public Sector, we're still finding big cost savings through bringing customer service, sales and support closer together.

We've combined the business elements of BT and EE – finding overlaps in the structures and delivering the financial savings.

We've also shared and adopted the best working practices of each organisation using this to improve customer service levels and overall NPS.

Performance in the year **operating**

Our order intake of £3.4bn was up 1%. Although we signed a large wholesale contract in Republic of Ireland this was offset by declining fixed voice revenue and by us deciding to move away from low-margin equipment sales.

Business and Public Sector 12-month rolling order intake

Year ended 31 March

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Our customer-facing units continued

Business and Public Sector continued

In last year's report, we set out our top priorities for this year. There's a summary of how we did in the table below.

Review of last year's priorities

What we said	What we did
Drive growth from broader sales coverage, winning new customers and cross-selling to existing ones.	We're increasing the average number of products our customers buy from us. We're doing that through multi-product combinations and by using the BT and EE brands to target existing customers who don't have both fixed and mobile solutions with us.
Stand out through integrating our portfolio and delivering it on the best network.	We strengthened our leadership in our regional teams. We integrated BT OnePhone with our BTnet Internet Access product. We launched Skype Integration with BT OnePhone for presence.
Keep improving our customer experience.	Customer experience scores are all going in the right direction – NPS (+12.1), RFT (+5%), and call volumes (-15%). We enhanced our portfolio to make our products more customer-friendly. Our broadband Smart Hub now comes with better diagnostics and we've simplified our pricing for BTnet.

We won or re-signed a lot of contracts this year, including:

Customer	Contract
WSP UK	We were picked as preferred network partner for extra internet connectivity. The solution will provide additional bandwidth to help its people work together better, and enhance end-user experience as well as resilience to ensure business continuity.
Severn Trent Water	We will be providing core communications infrastructure, including Managed WAN, Voice, SIP and LAN services.
London Borough of Bromley	A multi-million pound contract. It covers all the council's IT services. We will provide new voice and data networks, mobile phones, internet access and support for business software applications to be used by more than 2,000 council people.
First Group	We were chosen as its preferred Mobility Partner to provide a full range of mobility services.

The number of business lines we provide fell by 10% as customers continue to migrate to IP Voice. This has been partly balanced by our base of IP Voice lines going up 42% (against market growth of 21%).

There's been a strong take-up of BT Cloud Voice and BT Cloud Phone. User numbers are up 102% and 74% respectively.

We're adapting to changes in the public sector market. We've bolstered our regional leadership and aligned our health team with local governments – reflecting the disaggregation of the centralised N3 contract.

We've reached agreement to end contracts with customers in areas we said last year weren't core to our future. And we've also brought together our central government, defence and police organisations under new leadership.

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Revenue was down 4% (2016/17: up 11%) with underlying revenue excluding transit also down 4% (2016/17: down 6%). Profits fell mainly because of declining fixed voice revenues. But the rest of our business did well, especially mobile.

	2018	2017	2016
Year ended 31 March	£m	£ m	£m
Revenue	4,563	4,758	4,294
Change in underlying revenue excluding transit	(4)%	(6)%	(2)%
Operating costs	3,145	3,230	2,880
EBITDA	1,418	1,528	1,414
Depreciation and amortisation	365	352	284
Operating profit	1,053	1,176	1,130
Capital expenditure	304	275	153
Normalised free cash flow	1,136	1,293	1,101

SME revenue was down 1%. Strong growth in mobile didn't quite offset falling fixed voice revenues. As customers shift to IP Voice, they need fewer lines than with traditional voice, so overall line totals fall.

Corporate revenue was down 5%. Our growing mobile revenues were balanced by the decline in fixed voice revenue and falling equipment sales resulting from our decision to move away from lower-margin business.

Public Sector and Major Business revenue was down 7%. We sold less equipment and we are still feeling the impact of a few large public sector contracts coming to an end, as highlighted last year.

Foreign exchange movements had an £18m positive impact on Republic of Ireland revenue, where underlying revenue excluding transit was down 6%.

Operating costs were down 3% (2016/17: up 12%) and EBITDA was down 7% (2016/17: up 8%) because of lower revenues, operational efficiencies and cost savings. Depreciation and amortisation rose by 4% (2016/17: up 24%).

Capital expenditure went up by £29m (2016/17: £122m increase). Normalised free cash flow went down 12% (2016/17: up 17%) reflecting the lower EBITDA, increased capital expenditure and the timing of working capital movements.

Drive growth from broader sales coverage, winning new customers and cross-selling to existing ones

Develop innovative tools to boost cross-selling.

Create new bundles that are simpler to upsell.

Increase our reach through indirect partners.

Stand out through integrating our portfolio and delivering it on the best network

Build new converged propositions.

Standardise our solutions across the portfolio.

Offer higher capacity data services.

Keep improving our customer experience, especially digital

Provide a more consistent, personalised digital experience for each customer.

Transform our service model.

Focus more on proactive care.

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Our business is all about transformation. Transformation affects our customers and their customers. It affects our competitors and the markets in which we operate. It affects our strategic partners and the race to roll out new technology and solutions. And it affects our people and how they serve our customers.

Ultimately transformation is what we do for our customers, so they can embrace the opportunities of digitisation. And embrace them trusting their networks, systems and applications to a reliable partner.

This year we've been carrying out our own transformation. We're investing in scalable, repeatable platforms for a specific type of truly global company or organisation. We are also investing in differentiating our service, rolling out and managing software-defined network solutions, strengthening our security practice, and building on our Cloud of Clouds strategy.

We're focusing on a smaller number of markets and a more select set of repeatable solutions. And we're making our service model work more efficiently. These things will deliver the long-term value our customers deserve.

Our strategic review

Last year we announced a strategic review of Global Services. Today we've already made the first moves to becoming a more profitable, predictable and customer-focused business, which we're calling Digital GS.

Digital GS is our strategy to create a better future for Global Services, our people and our customers. Our business will focus on a set of named global customers and a portfolio of scalable repeatable solutions, supported by outstanding customer service and market-leading security.

Markets and customers**Customers**

We have 5,500 customers around the world. Major accounts are our focus – they generated 81% of our revenue in 2017/18. Around 78% of our revenue came from serving customers operating in multiple geographies.

Regions

We have more than 17,000 people worldwide in 59 countries. Our 20 highest priority countries, including the UK and other key countries where our major customers are based, generate more than 95% of our revenue.

Continental Europe is our largest region by revenue. We have offices in 17 countries, and an extensive network serving customers across the continent.

In the UK, we focus on financial services organisations and multinationals, where we benefit from BT's extensive UK network and mobile infrastructure.

Around 73% of our major customers have a presence in the Americas. So we operate in the USA, Canada and 28 countries across Latin America and the Caribbean. We do this from offices in 17 countries.

In Asia, Middle East and Africa we help multinationals expand their operations and we support local companies as they grow internationally. We have offices in 23 countries across the region.

Outside the UK, markets are liberalised to widely varying degrees. In many countries, this can constrain our ability to compete, to a greater or lesser degree.

We continue to press national incumbent operators and regulators around the world (including in the EU) for cost-related non-discriminatory wholesale access to their networks, where appropriate. We also ask for notice of any changes to network design or technology which would affect our ability to serve our customers.

Global Services revenue by region

Year ended 31 March 2018

Key market trends

Our customers are facing new disruptions and challenges. They include:

switching from old self-managed data centres to cloud-based infrastructure

responding to the explosion of data traffic, particularly to and from public clouds

the increased complexity of managing growing numbers of internet and network providers

increasing risk of cyber attacks and increased exposure as use of the internet grows.

As our customers digitally transform themselves, they rely on us. We must keep them connected to increasingly vital IT infrastructure and applications, help them enrich their customer interactions and boost their people's productivity.

Customers tell us they want a strategic partner. They want more commercial flexibility (eg usage-based billing) with reliable quoting and delivery. And they want faster innovation and time to market for new services.

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[Our customer-facing units continued](#)

[Global Services continued](#)

So, we're making our business more focused, straightforward and agile by investing and focusing on what our customers need:

secure, flexible hybrid network solutions with faster deployment via our Dynamic Network Services portfolio

dedicated access to a rich digital ecosystem of the world's leading cloud service providers through our Cloud Landing Zone

best-in-class customer service using the latest automation and information tools – flexible enough to cover self-service through to fully managed solutions.

Our competitors include global telecoms companies like AT&T, NTT, Orange and Vodafone and regional operators like Singtel.

Products and services

We call our portfolio strategy **Cloud of Clouds**. It brings together our six core product families with our ecosystem of partners to deliver global network and IT services.

Dynamic Network Services are the heart of Cloud of Clouds. Our strategy brings together:

strength in intelligent hybrid networks

a wide portfolio, especially in security

a focus on service

investments in the latest technology.

We're working with leading technology companies and cloud services providers like Amazon Web Services (AWS) and IBM. Together we're helping customers get the most from cloud and transform their businesses more quickly.

Our six core product families

BT Connect

Our network services connect our customers to their people, to their own customers and to the cloud. We offer flexible, intelligent hybrid and secure IP, Ethernet and internet virtual private network services, as well as connectivity to third-party cloud services providers.

Our Dynamic Network Services programme combines our global infrastructure with the latest technologies. They include network function virtualisation (NFV) and software-defined wide area networking (SD-WAN) solutions. These underpin the digital transformation of large organisations.

BT Security

Cyber attacks now happen every day, sparking cybersecurity conversations in the boardrooms of our customers.

We've learned a lot protecting our own organisation. And we use this knowledge to provide consultancy and managed security services, threat intelligence analysis and management to customers. This helps them protect themselves from ever-evolving threats and maximise the opportunities of digital transformation securely.

We work with more than 200 vendors. So our services are powered by leading technologies. We get intelligence from our global network and intelligence-sharing partnerships. So the services we offer are informed by real-time threat intelligence.

We've been at the forefront of cybersecurity for more than 70 years, working in close partnerships with government and law enforcement to make the internet safer for everyone.

BT One

People use technology to communicate in lots of different ways – phone, messaging, email, conferencing and data-sharing solutions, either at their desks or on the move.

Our collaboration services help businesses work together better and cut costs by transforming interactions with customers, colleagues, partners and suppliers.

BT Contact

Our contact centre services help our customers build richer relationships with their customers. We offer lots of ways to communicate – email, web chat, video, social media and phone – via automated systems or dedicated advisers.

Our cloud contact solutions give companies more control over costs, letting them change capacity depending on demand.

BT Compute

Businesses want reliable, flexible IT platforms and services for their applications, data storage and security.

We provide IT services from 48 data centres around the world, 22 of which deliver cloud services. We offer traditional telehousing and colocation through to the latest public, private and hybrid cloud solutions.

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BT Advise

Our global team of consultants work with customers to understand their issues and current capabilities and make recommendations based on our portfolio.

The plans we develop and support for customers help them do things like cut costs or increase productivity.

BT for Financial Markets

To help the global financial community with its regulatory, technological, and infrastructure challenges, we've built industry-specific solutions.

The BT Radianz Cloud is the world's largest secure, financial services community. It helps customers cut costs and get to market faster.

Traders worldwide rely on our specialist Unified Trading voice devices. We've recently added IP Trade's portfolio giving customers more options to integrate new compliance and unified communications tools.

We provide secure financial messaging to more than 100 companies in the post-trade sector.

We combine our Radianz and Unified Trading platforms to offer flexible cloud-trading services to more than 50,000 users.

Performance in the year

We remain a global leader for managed network and IT services.

In the last year we've been named as:

a Leader for the 14th consecutive time in Gartner's Magic Quadrant for Network Service Providers, Global (February 2018)^a

a Leader for the fifth consecutive year in Gartner's Magic Quadrant for Managed Hybrid Cloud Hosting (MHCH), in Europe (June 2017)^a

a Leader for the third year in a row in Gartner's 2017 Magic Quadrant for Contact Center as a Service, Western Europe (October 2017)^a

a Leader for the second year in a row in Gartner's 2017 Magic Quadrant for Unified Communications as a Service, Worldwide (September 2017)^a

a Leader in the IDC MarketScape Global Managed Security Services 2017 Vendor Assessment (August 2017). We were also voted number one financial services network provider in the 2017 Waters Rankings. This is the 15th year running Waters have recognised us for innovation in the BT Radianz Cloud.

^a Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organisation and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

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Performance in the year strategic

Delivering great customer experience

The feedback and insight we get from customers helps us make the right decisions to enhance their experience with us.

We measure loyalty and identify the things we need to improve through monthly net promoter score (NPS) surveys.

We use Customer Thermometer to track how they feel about their interactions with us.

And we use Right First Time measures, like how quickly we deliver orders or fix faults, to monitor how we're doing. During the year:

Our NPS 12-month rolling average rose 17 points (nine points ahead of our year-end target). More customers feel we understand them and proactively offer solutions.

Our RFT performance improved 8.2% (ahead of our 4.5% target), driven by strong performance in service delivery.

Investing for growth

Network and services

We opened a new cybersecurity research and development hub in Sydney, Australia – our first outside the UK. We also opened a new Security Operations Centre near Frankfurt, Germany – part of a global network of 15.

As part of our Dynamic Network Services programme, we launched BT Agile Connect. It's a new SD-WAN service giving customers control of infrastructure and traffic flows, faster and more secure set-up, and lower costs. We also launched:

BT Connect Intelligence InfoVista-as-a-Service – we were first to market with InfoVista's latest application performance management solution. It gives customers a new, commercially- flexible approach.

BT Bandwidth on Demand – helps our customers be nimbler by letting them flex network bandwidth in real-time.

BT One Collaborate Spark – integrates the new Cisco Spark services platform into our voice network. This is designed to deliver market-leading audio quality and user experience.

Internet Connect Global DDoS – offers critical security protection for internet-based WAN networking. **Service agility**

We're investing in new systems for service assurance and delivery like our Service Intelligence platform.

Our 360° portfolio reviews streamline how we deliver our products.

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[Our customer-facing units continued](#)

[Global Services continued](#)

Partnerships

We announced a strategic collaboration with Amazon Web Services to help customers adopt cloud services.

We extended our strategic partnership with Cisco, under the Dynamic Network Services programme.

We launched a new service, BT Cloud Connect Direct for IBM, to give global businesses direct access to IBM Cloud via our network.

We partnered with Symantec to provide our customers with best-in-class endpoint security.

Transforming our costs

We continue to focus on reducing costs. Operating costs were 8% lower this year.

Last year we said we'd transform Global Services. Since then we've streamlined and simplified our business to be more efficient and effective and to more tightly control our costs. For example:

Restructuring our European operations. We've pressed ahead with a restructuring programme to help us compete more effectively, especially in Europe. By getting rid of duplication and working more efficiently we have been able to rationalise the number of management and back-office roles.

Rationalising our domestic portfolio. We're switching from legacy and domestic portfolio platforms onto a set of globally scalable ones. This year we closed or migrated eleven domestic product platforms.

Re-designing our global network. We're improving the performance and efficiency of our core European network.

Reducing low-margin business. In line with our strategy, we've reduced IP Exchange volumes and equipment sales, leading to lower operating costs.

Performance in the year **operating**

We took £3.8bn worth of orders, down 16% from last year. This fall was due to our decision to stop pursuing non-strategic opportunities and to changes in buying habits. Customers want more flexible commercial terms like shorter contract lengths and more usage-based services.

The table below shows the progress we've made on the priorities we set ourselves last year:

Review of last year's priorities

What we said	What we did
Implement a leaner and more customer-focused operating model.	From April 2018 our top accounts have a new global account management model in place.
Grow our cloud-based services and security portfolio at double-digit rates.	We grew our security and Cloud Compute services by double-digits. (One Cloud and Cloud Contact services didn't grow as much but we're aiming for double-digit growth in future.)
Launch a new digital customer experience, using automation and portfolio innovations like NFV and SDN.	<p>We launched Dynamic Network Services, including BT Agile Connect and Bandwidth on Demand.</p> <p>We introduced the Service Intelligence platform. Now our people can view customers' networks and applications in real-time.</p> <p>And we brought in tools like MI Kitchen (a unified data source for better management insight) and Service Orchestration (to automate how we manage incidents).</p>

This year we won

Customer

Contract

Anglo American BT Security

Security operating centre capability and endpoint monitoring service.

AWE BT Security	Cybersecurity.
Deloitte BT One	Video streaming to 35,000 employees across North West Europe.
Deutsche Post DHL BT One	Fixed voice services serving around 3,000 employees in 45 locations.
Fujitsu BT Connect	WAN services providing connectivity between their own and customers premises.
Hella Group BT Connect	Global WAN services connecting locations in 12 countries through Europe and Asia.
Mastercard BT Connect	IP Connect managed network services in the UK, US and Europe.
Wallenius Wilhelmsen Logistics BT Connect	Network connecting more than 100 locations in 40 countries.

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Revenue fell 9% (2016/17: up 8%). This decline principally reflects lower IP Exchange volumes and equipment sales from our strategic decision to reduce low-margin business, reduced revenue from our Italian business, lower general trading across all regions and some large contracts ending.

These factors were partly offset by a positive £68m impact from foreign exchange movements. Our key revenue measure, underlying revenue excluding transit, fell 8%.

	2018	2017	2016
Year ended 31 March	£m	£m	£m
Revenue	5,013	5,479	5,074
Change in underlying revenue excluding transit	(8)%	(2)%	0%
Operating costs	4,579	4,984	4,595
EBITDA	434	495	479
Depreciation and amortisation	424	439	422
Operating profit	10	56	57
Capital expenditure	278	361	355
Normalised free cash flow	118	(245)	151

Underlying revenue^a in AMEA^b fell by 5% (2016/17: down 4%). In the Americas^c it fell by 11% (2016/17: fell 6%), reflecting the ongoing impact of a major customer insourcing services in the US and a large contract in Brazil completing in early 2017/18.

In Continental Europe underlying revenue excluding transit dropped by 9% (2016/17: down 5%), reflecting lower IP Exchange volumes, lower equipment sales and lower revenue from our Italian business. In the UK revenue fell by 6% (2016/17: was up 5%) reflecting lower IP Exchange volumes.

Operating costs fell by 8% (2016/17: up 8%). This mainly reflected lower IP Exchange volumes and lower equipment sales.

EBITDA fell 12% (2016/17: up 3%) reflecting certain one-off items in the current year and the prior year benefit arising from a revision of the annual bonus. Excluding these one-off items, EBITDA was broadly flat. Depreciation and amortisation was down 3% (2016/17: up 4%). Operating profit fell by £46m (2016/17: down £1m).

Capital expenditure was down 23% (2016/17: up 2%). EBITDA less capital expenditure rose by £22m to £156m compared with last year's rise of £10m.

Our normalised free cash flow of £118m was £363m higher. This was mainly due to the prior year impact of unwinding improper working capital transactions in our Italian business.

^a Excludes specific items and foreign exchange movements and acquisitions.

^b Asia Pacific, the Middle East and Africa.

^c United States & Canada and Latin America.

Improve service agility and customer experience

Automate manually-intensive service processes.

Harmonise our systems so there's better end-to-end ownership of processes.

Introduce new tools to enrich our customer service interactions.

Deliver our global transformation priorities

Implement our global operating model faster.

Complete our organisational redesign in line with our global strategy.

Help our people be more productive through investment in simplification, tools and process automation.

Make our high-growth strategic portfolio more repeatable

Embed BT Security features more deeply into the rest of our global portfolio.

Expand our portfolio of standardised Dynamic Network Services solutions.

Simplify commercial offers for cloud solutions.

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Our 4,700 people combine unique expertise in fixed and wholesale network solutions with operational knowledge in our venture businesses. This year we created a new unit dedicated to the Internet of Things, serving the wider BT Group.

Markets and customers

Our wholesale business helps communications providers (CPs) and other organisations provide fixed or mobile phone services. Our ventures provide mass-market services like directory enquiries and payphones, and enterprise services including BT Fleet and BT Redcare.

Wholesale: Fixed network services

We provide wholesale fixed network services to more than 1,400 customers. They include Sky, TalkTalk, Telefonica O2, Three and Virgin Media and overseas CPs operating in the UK.

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

Wholesale: Mobile network services

We help Mobile Virtual Network Operators (MVNOs) offer their own-brand mobile plans. Today our MVNO business supports 3.7m customers. They access the EE mobile network under our partners' brands.

Wholesale: Market trends

The key trends this year were:

rising demand for bandwidth and superfast connectivity, especially fibre broadband

higher MVNO subscription volumes, coupled with slightly lower average prices

more price competition for wholesale data products like Ethernet and broadband

the UK market's fastest ever growth in cloud communication business users in the last six months with more than 3m business users for the first time.

Ventures

Our ventures provide solutions to more than 1,000 enterprise customers. They include law firms, energy providers and mobile payment companies.

We also handle millions of directory enquiries and 999 calls and deliver the Phone Book to more than 21m homes and businesses.

Internet of Things

The Internet of Things (IoT) is a network of connected objects that exchange data to drive insight and action. Our IoT propositions, coupled with solutions from our partners, serve high street retailers, large logistics groups and utilities.

We also offer IoT connectivity to our wholesale partners in the UK, using the EE mobile network.

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 now serve 98% of premises with copper-based broadband (2016/17: 96%) and more than 29m premises with fibre. Combined with our older broadband network, we can reach 99% of premises.

Wholesale Ethernet lets customers connect at speeds of up to 10Gbps. Wholesale Optical boosts those speeds to 100Gbps. This year we extended our own fibre-based Ethernet to more third-party datacentres.

Our Managed Ethernet Access Service (MEAS) carries mobile voice and data traffic to and from mobile operators transmission masts.

Voice

Our IP Exchange platform helps CPs carry their customers' voice calls beyond the reach of their own voice network. It's used by more than 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 from start to finish. They keep their customer relationships through their own sales, service and billing.

Hosted communications

Traditionally, businesses made and received calls over phone lines via a switchboard.

Wholesale SIP-Trunking delivers calls over broadband or Ethernet, while Wholesale Hosted Centrex puts switchboard capabilities into our network.

Similarly, our Hosted Contact Centres replace the systems and services needed to handle large numbers of inbound or outbound customer calls.

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Our customer-facing units continued

Wholesale and Ventures continued

Mobile Virtual Network Operator (MVNO)

We have kept our focus on supporting MVNOs, helping them give their customers access to the EE mobile network under their own brand. In 2017/18 we signed a new agreement with China Mobile. It launched a mobile proposition for Chinese communities, students and travellers in the UK.

Managed solutions

We've designed a range of fully-managed solutions, including access infrastructure, backhaul and core services. This means greater flexibility to meet CPs' needs and includes the migration path to next generation technologies.

Our portfolio includes Managed Install (quick and efficient Ethernet circuit installation) and Managed Wayleave – a solution that streamlines getting landowners' rights of way.

Machine-to-machine and Internet of Things

We have four products in our Internet of Things portfolio. And we're actively building new ones.

Machine-to-machine and IoT network solutions: these use our mobile and fixed networks to help companies communicate securely with their devices and improve their services' features and reliability.

Intelligent Retail Solution: this helps high street retailers better understand customer footfall in their stores. It's powered by the Acuitas Alliance of BT, Intel, RetailNext, SATO and other partners.

Asset Intelligence: these solutions let customers track, monitor and control assets via RFID, low power networks and cellular radio technology.

Smart Cities starter kit: this gives UK cities a bundle of pre-configured use cases in things like transport management, lighting and operations. We're involved in two big projects transforming Milton Keynes (MK Smart) and Manchester (City Verve).

Roaming

We help BT and EE mobile customers use their mobiles abroad through roaming agreements in more than 200 destinations.

Media services

Our media network connects major spots around the world where broadcast or film content is created or distributed.

In the UK it carries all 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 like cloud-based content playout and media file acceleration.

Ventures

Our ventures provide well-known services nationwide:

999: we handle 999 and 112 (the European equivalent) calls on BT and other CPs' behalf. In 2017/18, we answered more than 32 million 999 and 112 calls. Despite the fires, terrorism incidents and bad weather that hit the UK, we answered these calls in an average time of 0.45 seconds – a big achievement.

Next Generation text calls: we deal with the next generation text calls that support deaf, hard of hearing or speech-impaired people. We answered 700,000 calls in 2017/18.

Directory Enquiries: we offer six services. They include 118 500 (for people to get listed phone numbers easily) and 195 (for directory access for people who can't use a phone book due to disability).

Payphones: we provide most of the UK's payphones, whether in public places or on private premises. In 2017, we launched InLinkUK, our new digital kiosks, see page 101.

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The Phone Book: we deliver this to 21.7m UK homes and businesses. Roughly 200,000 UK businesses advertise in the Phone Book's print and digital editions.

Our 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. And we manage a further 58,000 vehicles for brands like the AA and National Grid.

BT Redcare: we link on-site alarm systems and central alarm receiving centres to secure more than 200,000 UK homes and businesses.

BT Supply Chain: we hold and dispatch products like mobile phones and smart meters. For customers with big field engineering teams, we manage vehicles, supply 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. We sell to more than two-thirds of the top 100 law firms, and across Europe, North America and Australia.

Messaging: we offer bulk text messaging to major UK and public sector customers. This year we sold 2.7 billion texts (25% more than last year). We also sent 0.5 billion text appointment reminders and alerts for NHS patients and staff.

Performance in the year [strategic](#)

Delivering great customer experience

We're making progress in giving our customers a better and simpler experience.

Net satisfaction measures our customers' views on how we're doing. It's the difference between those who score us very high (9+) and those who score us lower (six or less) on the net promoter scale of 0-10.

During the year we improved our website and online service platforms. For example, we launched a new online capability for buying Ethernet services online meaning faster and simpler ordering. We also improved our Fleet Solutions booking experience and the quality of our information updates for our customers. These initiatives boosted net satisfaction, up 4.3 points from last year.

Our Right First Time measure continues to improve, increasing 3.4% on last year. This was helped by us achieving 100% of contractual milestone dates for Managed Ethernet commitments during Q4, and a 9% improvement in our Ethernet delivery to first customer promise date.

Investing for growth

This year we've invested in both new connectivity options for wholesale networks and in the services to run those networks. Looking ahead, we're implementing a new strategy for our ventures and for the Internet of Things for the wider BT Group.

Wholesale

We're developing our sales channels, changing our sales organisation and investing more in people, processes and systems.

Ventures

In fleet, we bought SEV (a mobile vehicle maintenance business) and integrated it with our fleet operations. We grew our team of mobile technicians by 18%. And we launched a suite of mobile apps: driver daily defect checker, self-service booking, accident management and garage locator.

In supply chain this year, we finished integrating Pelipod (the smart locker company we bought in 2016). We installed 264 Pelipod-lockers and 2,518 Pelipod-boxes at 332 sites. And we established a nationwide network for field operations supporting BT engineers and external customers like EDF Energy.

In payphones, we launched InLinkUK in June 2017. These kiosks replace old phone boxes and provide free digital services for the public and advertising for businesses. They feature the UK's fastest free public wi-fi and a pair of 55 HD digital displays. There are now 138 InLink kiosks installed in London and Leeds with hundreds more due in 2018/19.

Our new Internet of Things team is engaging with major customers and partners across BT Group. Building on our partnership with the Williams F1 team, we recently hosted a transport ecosystem event for 100+ customers.

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Our customer-facing units continued

Wholesale and Ventures continued

The team also supports internal IoT initiatives to improve customer experience and cut costs and carbon emissions. There have been initiatives in EE datacentres, trials for smart building solutions and solutions to track BT's fleet.

Transforming our costs

Ongoing cost transformation projects continued to save us money. We've:

audited, renegotiated and consolidated suppliers, especially in new areas of Wholesale and Ventures

consolidated old or end-of-life platforms

reviewed our structure to make sure we're the right size and fit for what our customers need.

Performance in the year **operating**

Our product mix is changing. Customers used traditional products less, as expected. But that was balanced by a healthy order book and growing revenues in other areas.

This year we signed £1,418bn of orders. They included:

extending our Managed Services Contract with Virgin Media to operate its UK voice network

rolling out a new managed service contract with InLinkUK

signing a multi-year product and professional services framework deal with KCOM

deploying IoT asset tracking solutions for logistics and utility customers

delivering a new MVNO partnership with China Mobile

signing a new multi-year deal with Daisy to manage its end-to-end supply chain and logistics.

Review of last year's priorities

What we said	What we did
Start deploying our new digital street kiosks.	InLinkUK launched in June 2017. There are now 138 kiosks installed in London and Leeds with hundreds more due across the UK in 2018/19.
Expand our managed services capacity, to help customers run their networks and operations.	We launched our new portfolio of Professional Services.
Help mobile network operators prepare for the next generation of 5G networks.	We're providing advanced mobile- focused products and managed services to our mobile network operator customers as they deploy 4G networks and plan for 5G. We've evolved our portfolio to include small cells and are deploying them at more than 50 UK sites. They're used by mobile operators to improve 4G coverage and for future 5G capacity.
Add 4G mobile access to our hosted communications portfolio.	We're currently launching a new and improved mobile application called Office UC on our hosted Centrex products.
Develop new solutions for the Internet of Things.	There are now IoT solutions in some datacentres. They've helped us anticipate and fix faults which might have affected broadband customers and optimise our energy consumption. We're rolling out components of our intelligent retail solution in our retail estate (around 600 EE stores) to improve customer experience and store

Improve customer experience especially RFT delivery for Wholesale Ethernet and Hosted Communications Services.

operations.

We're developing more IoT propositions with major product launches in the coming months.

RFT has increased significantly with a 3.4% increase in the year.

We improved Ethernet delivery by the customer required-by date by 9%.

We delivered Managed Ethernet Access Service (MEAS) 100% on time during Q4.

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Revenue was down 5% compared with a 7% decline last year. This included £12m or 25% less transit revenue than the year before.

	2018	2017	2016
Year ended 31 March	£m	£m	£m
Revenue	2,009	2,109	2,274
Change in underlying revenue excluding transit adjusted for the acquisition of EE	(4)%	(3)%	
Operating costs	1,255	1,275	1,519
EBITDA	754	834	755
Depreciation and amortisation	311	306	253
Operating profit	443	528	502
Capital expenditure	229	226	209
Normalised free cash flow	509	587	536

Revenue was down 5%, this reflects the market decline in legacy products partially offset by growth in Ventures.

Managed Solutions revenue declined 9% as MEAS saw a 13% fall. Mobile network operators have now largely completed the 4G build phase, 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 8%, due to the continuing decline in legacy Partial Private Circuits and price pressure in an increasingly competitive wholesale broadband market. Ethernet saw a 2% increase. Voice revenue was down 6% due to the market decline in call volumes.

Wholesale Mobile revenue was up 2% at £229m supported by growing data usage and more customers moving to 4G.

Ventures revenue of £321m was up 3% compared with last year. This was driven by growth in BT Fleet, both organic and through acquisition (for example the SEV acquisition that allows Fleet to have mobile repair capacity). Bulk messaging services also grew significantly. These were offset by reductions in BT Cables because of falling demand

for copper cabling, and further reductions in our Phone Book, Payphones and BT Redcare businesses which continued to decline in line with their markets.

Operating costs were flat reflecting the change in product mix as higher-margin legacy products continue to decline.

EBITDA was down 10% on last year reflecting the lower revenue on high-margin legacy services, continuing migration to lower-margin IP services in Wholesale, and the change in product mix.

Depreciation and amortisation was up 2% (2016/17: 21%), primarily due to the BT Fleet vehicle replacement programme. Operating profit went down by 16% (2016/17: up by 5%).

Capital expenditure was up 1% and normalised free cash flow was £509m.

Roll out new services in our wholesale and venture businesses

Continue the rollout of our digital kiosks (InLinkUK).

Keep expanding managed services.

Expand our growth portfolio

Keep building Internet of Things solutions and strengthening our position in this area.

Carry on developing and rolling out our nationwide final mile network.

Improve customer experience

Roll out a new programme to improve customer experience on our website and digital platforms.

Improve the multi-product experience.

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Another hugely eventful year at Openreach

It's been a busy twelve months. We've been simultaneously laying the foundations for Britain's ultrafast future; setting more ambitious targets for rolling out fibre-to-the-premises; and investing in a better and broader network.

And we've made big strides towards becoming the distinct, legally separate company within BT Group that we committed to after Ofcom's Digital Communications Review (DCR) in 2017.

Decent broadband for everyone

This year we continued to grow our superfast broadband network. Today it delivers speeds of at least 24Mbps to more than 27.5 million premises. We were proud to do the heavy lifting on the Government's commitment to make superfast available to 95% of UK homes and businesses by the end of 2017.

This is no mean feat. Few countries around the world can point to such a widespread superfast footprint. But everyone in Britain should be able to get decent broadband speeds and we're still a few per cent short of good enough.

We won't stop until we close the gap. And we fully support the Government's plan to deliver a Universal Service Obligation that will give everyone the right to request 10Mbps broadband as a minimum by 2020.

Delivering an ultrafast future

Having achieved such widespread access to superfast broadband, it's right that we shift our focus to the next generation of ultrafast (100Mbps+) infrastructure.

Let me be clear – we believe in an FTTP future. In fact I think it's essential to the UK's productivity and prosperity that we build a future-proofed digital network that will serve our people and businesses for decades to come.

This year we've made big progress – honing our skills, tools and techniques, taking our overall ultrafast footprint to more than 1.5m homes and businesses. Having consulted our communications provider customers during the summer, we now have an accelerated plan to make FTTP connections available to three million homes and businesses by the end of 2020. But we want to go a lot further – to 10 million premises and ultimately most of the UK. So we now have a

Fibre First approach to every network expansion decision we make.

We've begun work in eight major cities and I firmly believe that with the right conditions we can reach 10 million premises by the mid- 2020s and the majority of the UK thereafter.

We've also continued to innovate with Gfast technology. It will play an important role getting ultrafast speeds to people quickly and cost effectively.

Investing in our people

Improving the service we deliver will always be our top priority. I'm encouraged by the persistent progress we've made this year in cutting the number of faults, keeping missed appointments to a minimum and fixing the faults we find much faster.

We've kept investing heavily in our people, training and systems, and we hired 2,392 extra engineers to maintain our network and connect our customers throughout Britain. We'll hire a further 3,000 this coming year in support of our Fibre First plans. And we've introduced a lot of new training and career opportunities to help us develop and keep hold of the very best engineering talent.

A bright independent future

Openreach is a very different business from this time last year. We're now a separate company, Openreach Limited, wholly owned by BT, with our own board responsible for setting strategy and overseeing performance.

We're tracking well against all of the commitments BT made as a result of the DCR and we're ahead on many, including our governance and rebrand.

I hope by now you'll have spotted one of our new vans, or our people sporting the new Openreach identity – more and more are appearing every week. But the changes go far deeper than that.

We're developing stronger relationships with our customers through our confidential consultations, and we're forging closer ties with the industry, regulators and government for the good of the UK. We know there's a lot more to do and we're excited to be driving Britain's digital revolution.

Mike McTighe

Chairman

9 May 2018

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Our customer-facing units continued

Openreach continued

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 called 'the last mile'), and installing and maintaining the fibre and copper communications networks that connect homes and businesses.

Communications providers (CPs) access our network on equivalent terms. That means they all get the same products, prices and levels of service. They use our network to deliver services ranging from home phone, broadband and TV to high-speed data connections for businesses of all sizes.

Delivering a more independent Openreach

Openreach has now been incorporated (Openreach Ltd). This follows the long-term regulatory agreement between BT and Ofcom under the Digital Communications Review (DCR). When all DCR preconditions have been met, Openreach will operate as a distinct, legally separate company within BT Group.

We now have more control of our strategy, investments and plans within a strategic and financial framework defined by BT, making it more autonomous, transparent, and accountable to customers and stakeholders alike.

Openreach local access network

More than 27.5m premises

can access superfast fibre

Greater independence also strengthens our ability to work more closely with all our customers. These stronger partnerships will deliver a future communications infrastructure that will remain the foundation of the UK's vibrant internet economy.

The DCR agreement with Ofcom is based on voluntary commitments from BT. Once they're fully implemented, it means:

Openreach becoming a distinct company

a new Openreach board with an independent chair and majority of independent directors setting the direction and overseeing the company

executives being accountable to the new Openreach board

Openreach having control over strategy and budget allocation within an overall framework set by BT

Openreach consulting widely with communication providers to inform its network investments, including through a new confidential consultation phase

distinct Openreach branding.

Over the past 12 months, we've already taken big steps to meet the commitments quickly and work in a new way. They include establishing the Openreach board, consulting with customers on FTTP investment and launching a new, distinct brand. In fact we've delivered many of the commitments ahead of the original schedule agreed with the regulator.

Markets and customers

The UK has the highest share of GDP generated by the digital economy of any country in the G20. It also has higher superfast availability and take-up than any major European peer. We're playing our part in this success story by building and running the largest superfast network in the country.

At the end of December 2017 there were 26m connected broadband lines in the UK. 80% of these – excluding Hull – use Openreach's network. (The rest are mainly on Virgin Media's cable network.)

Total UK broadband market

As at 31 March