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Critical accounting estimates and key judgements

More information



btplc.com

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Digital impact and sustainability report
btplc.com/digitalimpactandsustainability

This Strategic report was approved by the Board on 8 May 2019.

By order of the Board

Rachel Canham
Company Secretary & General Counsel, Governance
8 May 2019

Please see the cautionary statement regarding forward-looking statements on page 190.

Pages 1 to 54 form the Strategic report. It includes Our business model, Strategic progress, Group performance and Our principal risks and uncertainties.

The Governance section on pages 55 to 99 forms the Report of the Directors.

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A message from our Chairman



We have made good progress on delivering our strategy, focused around differentiated customer experience, our best converged network, and creating a simple, lean and agile business.

I am pleased to report that we have over the last year overcome numerous challenges to deliver a set of solid financial results. More importantly, we have made good progress on delivering our strategy, focused around differentiated customer experience, our best converged network, and creating a simple, lean and agile business. We have continued to deliver the vital connectivity and services that families and businesses in the UK and beyond need to flourish.

BT has a critical role at the heart of the UK's digital future, and our substantial investments in fixed and mobile networks make an essential contribution. The new converged propositions we launched this year are the start of the services of the future. Within BT we are strengthening our focus on enabling the digital skills of our people, customers and communities, thereby further contributing to the UK's digital economy.

We will be launching 5G in 16 cities this year. We will also increase our investment in fibre-to-the-premises (FTTP), while working with the Government and Ofcom to create the right conditions to go further and faster. We are pleased with our closer relationships with these key stakeholders as we unite around the common goal of building the UK's FTTP network.

In May 2018 we agreed the 2017 triennial funding valuation for the BT Pension Scheme. This allows us to move ahead with greater financial certainty.

Our solid profit and normalised free cash flow not only provide the foundation for investment in our strategic priorities but allow us to reward shareholders. We are paying the same dividend as last year at 15.4p per share. We also expect to hold the dividend unchanged in respect of the 2019/20 financial year given our outlook for earnings and cash flow. The Board remains committed to our dividend policy, which is to maintain or grow the dividend each year whilst taking into consideration a number of factors including underlying medium term earnings expectations and levels of business reinvestment (which would include the consideration of accelerated FTTP investment).

I am satisfied we are making progress at pace. The coming year will see BT continuing its transformation to become a simplified, lean and agile business. Across the business I see a commitment to streamlining processes, governance and organisational structures; simplifying lines of responsibility; and helping people make better decisions.

As a Board, we are leading by example. I recently carried out a review of the structure, composition and operation of our committees to speed up decision making and improve overall governance. As a result, we have reduced the number of board committees and clarified lines of responsibility. Further details are described in the Governance report on page 55.

I would like to welcome non-executive directors Matthew Key and Allison Kirkby to the Board. They both bring valuable experience of the communications and technology sectors.

Gavin Patterson stepped down as chief executive at the end of January and I would like to thank him for his contribution to the business over his 15 years with the company. He led BT with vision and dedication through a challenging time and started the necessary process of transforming our business for the demands of modern society. We wish him well for the future.

I would like to extend a warm welcome to our new chief executive Philip Jansen. Philip is a proven leader with outstanding experience in managing large, complex businesses and has the right combination of skills and experience to take BT into the future. Philip has made an excellent start as chief executive and I am confident that he will have the full support of all our people as we embark on the challenging but exciting next chapter of this great company.

This is a very important time for BT and the UK's digital economy. I look forward to working with Philip and his team as they develop our strategy and accelerate the reshaping of BT to deliver future success.

Jan du Plessis

Chairman

8 May 2019

Full year dividend per share

15.4p

Revenue

£23.4bn (1)%

Profit after tax

£2.2bn +6%

A message from our Chief Executive



I am delighted to be the new chief executive of BT. We play an important role in UK society and provide mission-critical services all around the world. It is a privilege to lead such a special company, with a great history and a very exciting future. BT creates value for a large and diverse group of stakeholders.

My first priority on joining in January was to meet as many BT colleagues as possible, and I have seen first-hand the energy and commitment they bring to doing the right thing by our customers. As we build the BT of the future, this dedication will be essential for transforming the company and improving the service we provide to our customers.

Many of our people talk to customers every day and can provide great insight into how they think. The way our customers see the world and our role in their lives and businesses is changing. In the coming year we will focus on developing a better understanding of what customers value about BT in each of our market segments.

BT is already making significant investments in our key markets and we have a very strong market position, but we need to invest more in our core areas to drive future growth. Constant innovation is key to keeping our business moving forward. Our increasing investment in fibre and 5G programmes is vital to our future success.

Our relationship with the UK Government and Ofcom continues to improve. We're working in a pragmatic, straightforward and collaborative way. We want to shape the regulatory environment so that it is clear and predictable, enabling BT to

succeed by delivering sustainable value that reflects what customers and society want.

Our core priorities around customer experience, building the best converged network and transforming our operating model underpin how we will compete and drive sustainable growth.

Everything we do should start with the aim of delivering a differentiated customer experience. We are already making progress with this. We introduced our first converged products, BT Plus, for consumers and 4G Assure, for small businesses, which have seen strong take-up. In the coming year there will be additional investment to improve our propositions, offer great value for money and increase consumer loyalty.

We will also invest to maintain our network leadership position. We already have the best mobile and fixed networks and in the coming year we will launch 5G across 16 UK cities and accelerate our rollout of FTTP. Although important points still need to be agreed, our dialogue with the Government and Ofcom is constructive and we are increasingly confident in the environment for investment in the UK. As a result we are increasing our aim of reaching 3 million homes to 4 million by March 2021 and 15 million by the mid-2020's, subject to conditions being right.

BT has made progress during the year towards creating a simplified, lean and more agile business. We will make further improvements in the coming year to speed up decision making and the pace of work, making use of the latest digital technologies. Our people recognise we are too complex and want us to go faster in our transformation. Employee engagement is high, with a 77% engagement outcome for colleagues participating in our recent people survey. The results were generally encouraging, and demonstrate our collective desire to embrace the changes required to make BT a brilliant place to work and give our customers an outstanding experience.

I am pleased to see how much our people contribute to the community and am proud that BT encourages this work. One area I want us to really lead on is improving digital skills – for our colleagues, customers and families across the UK and well beyond. BT is uniquely qualified to help people navigate the

opportunities and challenges of our digital age. Enabling these skills will help people adapt to new ways of working and create future customer demand for our products.

We're committed to respecting human and digital rights – we launched an overarching human rights policy, and we're partnering with others to combat modern slavery. We continue to tackle environmental challenges, having recently announced our ambition to be a net zero carbon emissions business by 2045.

BT has delivered solid results for the year, and this is due to the commitment of our colleagues. The markets we are in remain highly competitive and we continue to expect market dynamics, cost inflation and legacy product declines and the changing regulatory environment to impact our results in the short term, however, we are confident that our plans will deliver good returns over the medium term and improve the quality and performance of the business.

As a result, for 2019/20, we expect adjusted revenue to be down around 2%. This is mainly as a result of the challenging market conditions, regulatory pressure in both fixed and mobile markets, and the ongoing impact from our decision to de-emphasise lower margin products, particularly in our enterprise businesses.

Along with the flow through of lower revenue, we expect our opex investments to result in Group adjusted EBITDA for 2019/20 being in the range £7.2bn – £7.3bn. While we will sustain these opex investments into 2020/21, we continue to expect Group adjusted EBITDA for 2020/21 to be above that for 2019/20.

We are raising our reported capital expenditure guidance (excluding BDUK clawback) for 2019/20 to be in a range of £3.7bn – £3.9bn. We expect normalised free cash flow for 2019/20 to out-turn in the range £1.9bn – £2.1bn.

I look forward to working alongside our colleagues to build the new BT and I am optimistic and energised for the future.

Philip Jansen
Chief Executive
8 May 2019

About BT

Who we are

We're one of the world's leading communications services companies. We're based in the UK but we serve customers in 180 countries.

What we do

We develop and sell communications products and services and build and operate networks that are an essential part of modern lives, businesses and communities.

How we're organised

BT is organised into two types of units: customer-facing units that sell products and services and corporate units that support the whole group.

Financial highlights

Revenue

£23.4bn (1)%

Profit before tax

£2.7bn +2%

Basic earnings per share

21.8p +6%

Net cash inflow from operating activities

£4.3bn (14)%



For more information on our financial performance see page 34.

Change in underlying^a revenue

(0.9)%

Adjusted^b EBITDA

£7.4bn (2)%

Adjusted^b earnings per share

26.3p (6)%

Normalised free cash flow^c

£2.4bn (18)%

Capital expenditure^d (excluding BDUK clawback)

£3.8bn +8%

Alternative performance measures

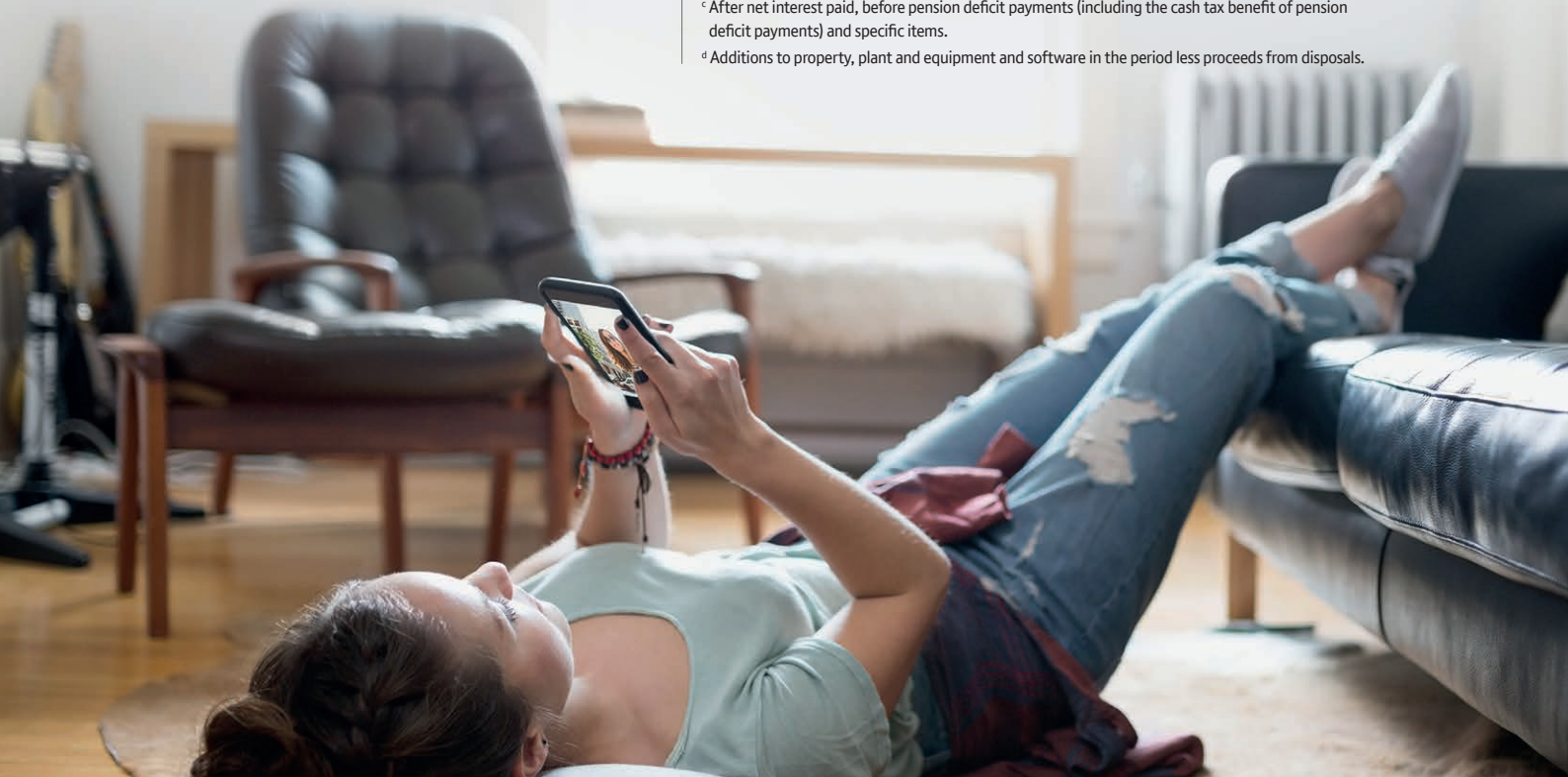
We assess the performance of the group using a variety of performance measures. These measures are not all defined under IFRS and are therefore termed 'non-GAAP' measures. We present a reconciliation from these non-GAAP measures to the nearest prepared measure in accordance with IFRS on pages 185 to 187. The alternative performance measures we use may not be directly comparable with similarly titled measures used by other companies.

^a Underlying revenue excludes specific items, foreign exchange movements and disposals.

^b Items presented as adjusted are stated before specific items. See page 185 for more information.

^c After net interest paid, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

^d Additions to property, plant and equipment and software in the period less proceeds from disposals.



Our customer-facing units

Consumer

Across our three brands – BT, EE and Plusnet – we connect customers to information, entertainment, friends and family, at home and on the move. Between them, the three brands serve the whole of the UK, providing mobile, broadband, home phone and TV services. We buy access to fixed-line and broadband infrastructure from Openreach, and we use EE's mobile network to provide mobile phone services.

Led by
Marc Allera
CEO, Consumer

External revenue

£10,588m +3%

Percentage of
group revenue

45%



Enterprise

We sell communications and IT services to businesses and public sector organisations in the UK and Ireland. We also provide network products and services to communications providers operating in Great Britain. We're focused on four main product markets: fixed voice, mobile, converged connectivity and networked IT services.

Led by
Gerry McQuade
CEO, Enterprise

External revenue

£5,933m (4)%

Percentage of
group revenue

25%



Global Services

We are a leading enterprise communications provider, serving enterprise customers in 180 countries. We provide managed network and IT infrastructure services, enabling customers' digital transformations.

Led by
Bas Burger
CEO, Global Services

External revenue

£4,735m (6)%

Percentage of
group revenue

20%



Openreach

We build and operate the fixed network that connects the UK's homes and businesses. We are responsible for providing wholesale 'last mile' fixed access from premises to exchanges, and installing and maintaining the fibre and copper communications networks.

Led by
Clive Selley
CEO, Openreach

External revenue

£2,200m (3)%

Percentage of
group revenue

10%



Our corporate units

Strategy and Transformation

We are responsible for developing and setting corporate, network and product strategies for the group. We also drive pan-BT transformation programmes.

Led by
Michael Sherman
Chief strategy
and transformation officer

Technology

We are responsible for designing, building and operating BT's core and mobile networks, platforms and IT systems in the UK and globally. We also work with the customer-facing units to develop and roll out products and services for their customers.

Led by
Howard Watson
Chief technology
and information officer

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 and Company Secretarial, Compliance, Corporate Affairs, Property, Facilities, Procurement, Regulatory Affairs and Group Business Services.

Executive Committee

The *Executive Committee* provides input and recommendations to support the chief executive in exercising the authority delegated by the Board to run the business of the group day-to-day. It meets weekly and is chaired by the chief executive.

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.



Philip Jansen
Chief executive

Appointed as chief executive in February 2019 and on the Board since January 2019.

Philip joined BT from Worldpay where he had been CEO since April 2013. Before that he was CEO and then chairman at Brakes Group between 2010 and 2015. Philip spent the previous six years at Sodexo where he was group chief operating officer and chief executive, Europe, South Africa and India. Prior to that he was chief operating officer at MyTravel Group from 2002 to 2004 and managing director of Telewest Communications (now Virgin Media) from 2000 to 2002, after starting his career at Procter & Gamble.



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 finance director and executive director of ScottishPower. Prior to that, Simon was a director of McKinsey & Company.



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 areas 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 a founding director of Virgin Mobile.



Howard Watson
Chief technology and information officer
Appointed February 2016.

Howard was formerly chief architect and managing director, global IT systems and led the technical teams behind the launch of BT Sport in 2013.

Howard joined BT in 2011 and has 30 years of telecoms experience having spent time at Telewest Communications (now Virgin Media) and Cartesian, a telecommunications consultancy and software company.



Marc Allera
CEO, Consumer

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

Marc was previously chief commercial officer for EE from 2011 to 2015. Marc spent ten years at Three UK as sales and marketing director and subsequently chief commercial officer. Prior to that, Marc was general manager of Sega UK and Europe.



Ed Pettey
Corporate affairs director
Appointed November 2016.

Ed was formerly deputy director of corporate affairs at Lloyds Banking Group. Prior to that he 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.



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.



Bas Burger
CEO, Global Services

Appointed June 2017.

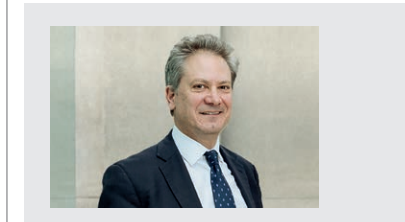
Bas was formerly president, BT in the Americas, BT Global Services. Bas joined BT in 2008 as CEO Benelux.

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.



Cathryn Ross
Regulatory affairs director
Appointed January 2018.

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.



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. The CEO of Openreach cannot be a member of the *Executive Committee* under the provisions of the Commitments. Clive attends *Executive Committee* meetings as appropriate.



Sabine Chalmers
General counsel

Appointed April 2018.

Before joining BT, Sabine 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 Wales and New York State.



Michael Sherman
Chief strategy and transformation officer
Appointed May 2018.

Michael is responsible for developing BT's long-term strategy and guiding pan-BT business transformation. Prior to BT, Michael was a partner and managing director at Boston Consulting Group for 11 years. Before that, Michael spent eight years as an executive at Viewlocity, an enterprise software company.



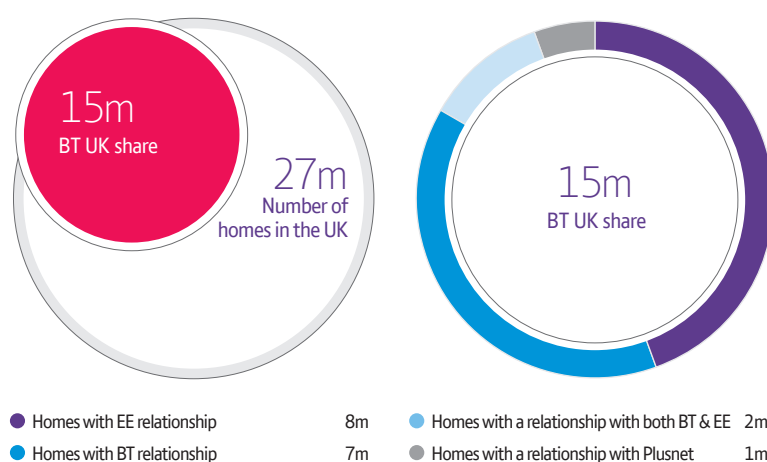
Rachel Canham
Company secretary & general counsel, governance

Rachel is company secretary of BT Group plc. She joined BT in 2011 as a senior commercial lawyer before becoming chief counsel for mergers & acquisitions in 2013. Rachel was appointed company secretary & general counsel, governance in November 2018. Rachel attends all *Executive Committee* meetings.

Market context

By understanding market trends in our own industry and in others that affect us, we can take advantage of opportunities as they arise and act more quickly to reduce any risks to our business.

Our share of UK households
(Number of households)



Service providers

Our markets

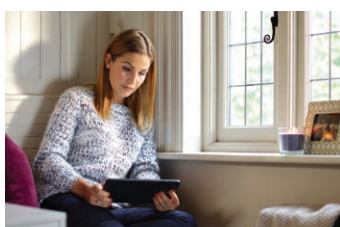
	UK fixed connectivity	UK Mobile	TV and content	Converged connectivity and services	Global telecoms services	Fixed infrastructure
Our brands						
BT	●	●	●	●	●	
EE	●	●	●	●		
Plusnet	●	●				
Openreach	●					●

Selected competitors primary offering

Amazon Prime Video			●			
Apple TV			●			
CityFibre	●					●
Giffgaff		●				
Hyperoptic						●
Netflix			●			
O2	●	●				●
Orange Business Solutions					●	
Sky	●	●	●	●		
TalkTalk	●		●	●		●
Three		●				
Virgin Media	●	●	●	●		●
Vodafone	●	●		●	●	●

Please note that these are primary offerings. We acknowledge that our competitors also have secondary offerings in some of our markets in addition to the above.

UK fixed connectivity



Providing fixed broadband services to consumers, businesses and communications providers.

We connect customers to information, entertainment, and friends and family, at home.

Fixed connectivity includes providing connectivity directly to homes or businesses and is our biggest market by revenue. It includes voice telephony, internet access and the provision of dedicated lines for business and public sector customers.

Within Enterprise, we have three main types of customers with different communications needs:

- Small and Medium Enterprise customers, who we define as having fewer than 100 employees, often rely heavily on communications services and look for more consumer-style products.
- Corporate customers, who often have more complex needs, and who are increasingly buying more security and cloud-based products.
- Public Sector and Major Business customers, who look to buy both fixed and mobile services in multi-year contracts and who can demand very high security.

We also serve communications providers who want to buy solutions to sell on to their end customers.

This segment is experiencing a technology migration from the legacy Public Switched Telephone Network (PSTN) to Internet Protocol (IP). The UK Government actively supports this.

In Consumer, fixed internet connectivity is increasingly essential to our individual and household customers, with each using an average of 240GB a year. In 2018, nine in ten people had access to the internet in their home. Many adults claim to spend as much as 24 hours per week online, more than twice as much as in 2007.

Price competition on phone calls and broadband continues to be intense. Therefore, revenue opportunities in this segment focus on increased demand for higher speed and better-quality products, driven by consumers and businesses using more data.

UK mobile



Providing mobile connectivity to consumers, businesses and MVNOs.

This market includes any data or voice services on mobile devices. It is a major segment of our business.

We use EE's mobile network to provide mobile phone services across our three brands to the whole of the UK.

Both Consumer and Enterprise sell mobile services in this market.

Another aspect of the mobile market is wholesaling to Mobile Virtual Network Operators (MVNOs) in the UK, where Mobile Network Operators offer wholesale mobile connectivity.

Historically, the mobile market has largely been driven by handset launches. Less innovation and differentiation mean consumers are keeping their handset for longer and visiting stores less often. This trend is leading to increased uptake of SIM-only plans in the market. We also see market volume growth coming from consumers buying extra SIMs and devices and using more data.

Businesses are increasingly letting their people use their own smartphones at work. Despite that, they are continuing to buy large data bundles to support their people's increasing mobile data use, for example in areas such as collaboration.

The UK currently has more than 100 MVNOs and we are one of the leading providers of MVNO services.

Market context continued

TV and content



Providing TV content to customers.

We sell TV content in our Consumer division under our BT and EE brands.

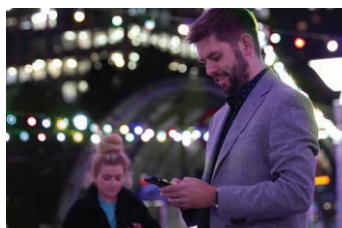
We also wholesale BT Sport to other providers.

The UK has a well-established free-to-air TV service, on top of which consumers buy many premium content packages including live sport, which continues to be a staple in most UK homes.

In comparison to 'cord-cutting' where consumers abandon TV packages in favour of a range of over-the-top (OTT) streaming media offers, we are seeing some evidence of 'package-thinning' as an emerging feature of the market. This is where customers buy the most basic package to get TV access and accentuate this with on-demand OTT content.

These trends are affecting traditional providers in limiting their ability to sell premium monthly content subscription packages.

Converged connectivity and services



Providing converged products and services to customers.

With our fixed and mobile networks, we are well positioned in the converged connectivity and services market.

We have launched BT Plus, the UK's first converged fibre and 4G plan that gives customers BT's fastest speeds in and out of the home with a unique Keep Connected Promise, all on one simple bill.

We launched 4G Assure for our business customers, providing 4G connectivity if their fixed broadband service was not available.

The UK is in the early stages of convergence – the bundling of fixed, mobile and TV services into a single service.

Convergence can increase customer lifetime value, as those taking converged offers tend to be more loyal.

Greater connectivity and new devices will lead to new possibilities for technology convergence. As an example, people can already answer their front doors and adjust their central heating remotely using Internet of Things (IoT) technology.

Applications like smart homes and connected cities are no longer ideas beyond the horizon – they are here and are already part of many major economies.

Global ICT services



Providing ICT services to global enterprises.

The global ICT services market includes security, network and IT services and is highly competitive, with many players. It includes local markets – often dominated by incumbent communications providers – and the global enterprise-grade fixed line services market.

Global Services operates in this market, leveraging the strengths of the BT network and capabilities, to deliver the tailored service that customers need.

The demands of business customers are changing. For example, they are moving from traditional voice services to digital voice services – from MPLS (Multi Protocol Label Switching) to services such as SD-WAN (Software-Defined Wide Area Networks). They are also increasingly focused on solving security challenges.

Companies value partners with the knowledge to help them on this journey. They rely on their technical expertise and scale to help them benefit from advanced services, in multiple regions, across infrastructures with mixed technologies and standards.

Fixed infrastructure



Providing network access to communications providers.

In just under half of the fixed infrastructure market, Openreach is the main provider to communications providers, who then offer services to their home and business customers. In the rest, we overlap with our biggest cable and fibre competitors.

Openreach is deploying new technologies such as Fibre to the Premises (FTTP) and Gfast to improve the performance and quality of its network. It also provides regulated access to its passive network assets (ducts and poles) to support network build by other providers.

The UK has a large fixed access network consisting of fibre and copper communication networks. Openreach operates in the UK's regulated, fixed access market and trades mainly with communications providers. It is responsible for providing services over the local access network, sometimes referred to as the 'last mile', installing and maintaining the fibre and copper communications networks that connect homes and businesses.

Our business model

Our business model is centred around providing customers with communications and connectivity services, while delivering great experiences and maintaining long-term relationships.

Our customers and what we offer them

Our customers are consumers, businesses, multinational corporations, public sector organisations and other communications providers.

We sell fixed-voice, broadband, mobile and TV to UK consumers, with a range of ancillary products and services such as handsets and insurance. For our UK and global business customers, our services range from phone and broadband to complex managed networks, IT services and cybersecurity. We also sell wholesale access products and services to UK communications providers.

Customers primarily buy through monthly, recurring subscriptions or contracts, which provide us with ongoing and predictable revenue. This is complemented by pay-as-you-go mobile services.

Individuals, households and SMEs pay for standalone or bundled services, typically on 12- to 24-month contracts. In addition, large enterprise customers – both domestic and international – buy managed services on multi-year contracts.

Wholesale contracts range from one month for regulated products, to five years or more for major managed services deals.

To create lasting revenue and profit, we focus on providing a differentiated customer experience, measured through Net Promoter Score (NPS^a), which has improved over 11 consecutive quarters.

^a Group NPS measures Net Promoter Score in our retail business and Net Satisfaction in our wholesale business.

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

What sets us apart

We have a unique combination of people, technology, content, networks and other physical assets that sets us apart and supports us in adding value:

Financial strength

Our cash flows provide us with the funding to make long-term investments. This year we invested £2.1bn in our network and generated £2.4bn normalised free cash flow, to support investment in future years.

£2.4bn

Normalised free cash flow

106,700

Total number of employees

28m

Total number of customers worldwide

27.9m

Homes and businesses with superfast fibre broadband

Our brands



openreach

600

Retail stores throughout the UK

£643m

R&D spend

100

Number of countries we have suppliers in

Our people

The commitment, expertise and diversity of our people are key to our success. We have 106,700 employees, 84,300 of whom are in the UK.

Our customer base

The size, scope and breadth of our customer base gives us an advantage over our competitors. We have a total of around 26.8 million consumer customers, 1.1 million UK business customers and 4,100 multinational customers.

Networks and physical assets

We maintain a substantial core network with key fixed and mobile assets, such as our superfast fibre broadband footprint of 27.5 million homes and businesses and our mobile spectrum assets.

Our brands

We own three retail brands: BT, EE and Plusnet. We also own the Openreach brand which serves communications providers.

Retail footprint

In the UK we have more than 600 retail stores, giving us the largest retail footprint of any mobile network operator.

Innovation

We own three retail brands: BT, EE and Plusnet. We also own the Openreach brand which serves communications providers.

Partners

In the UK we have more than 600 retail stores, giving us the largest retail footprint of any mobile network operator.

What we do

Our purpose

To use the power of communications to make a better world.

Our goal

Drive sustainable growth in value. Lead in converged connectivity and services, seize new business opportunities and deliver industry-leading efficiency.

We build

We build fixed and mobile connectivity across the UK, creating the UK's leading network.



We innovate

We use our customer insight and technical skills to create new connectivity-based products and solutions.



We sell

Through our brands, we sell products and services to build trust, create value and generate loyalty.

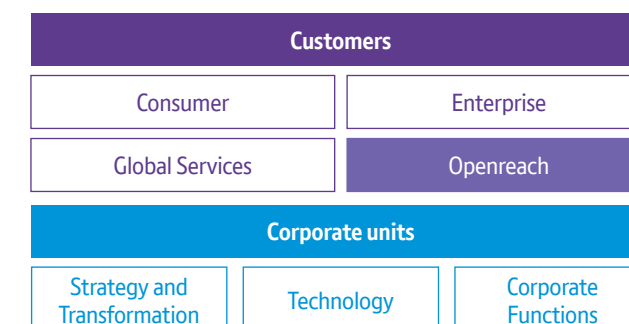


We operate

We operate fast, secure and reliable fixed and mobile networks that deliver what our customers need.



Our organisation



Stakeholder outcomes

Shareholders

10.78p

Proposed final dividend per share

15.40p

Full year dividend per share

Customers

5.4%

Improvements in Right First Time performance

3.4m

BT Call Protect customers

Colleagues

77%

Employee engagement outcome

1,400

Agency workers converted to permanent

Suppliers

£13.4bn

Spent with suppliers

67%

With top 100 suppliers

Communities and society

2m

Children reached through the Barefoot Computing programme

87%

Electricity used from renewable sources worldwide (UK now at 100% directly purchased)

Government

1,800

UK public sector customers



Information linked to our business model

About BT – we explain how we're organised and how and where we operate on page 4.

Strategy – our strategy supports our business model and is on page 14.

Principal risks and uncertainties – we describe these and how we manage them on page 46.

Viability statement – our directors' assessment of our prospects and viability is on page 54.

Governance – we describe how we govern our business from page 55.

Remuneration – the directors' remuneration report is from page 73.

Our strategy

Our strategy is to lead in converged connectivity and services, capitalising on new business opportunities and delivering industry-leading operational efficiency. This is to support our goal of delivering sustainable growth in value.

Our markets are transitioning but they are still based on the universal need to connect and communicate, a need which has never been more essential.

Creating experiences for our customers that truly differentiate us from our competitors is at the centre of our strategic framework. Everything we do with respect to building the best converged network, and becoming a simpler, leaner and more agile business, needs to ultimately support our strategy to deliver great customer experience.

We have underpinned our strategy to fulfil the needs of two other critical stakeholder groups – our people and the communities in which we do business. For our people, our strategy is to make BT a brilliant place to work. For the communities we operate in, our strategy is to be a valued partner in helping to build better digital lives.

Our purpose

To use the power of communications to make a better world

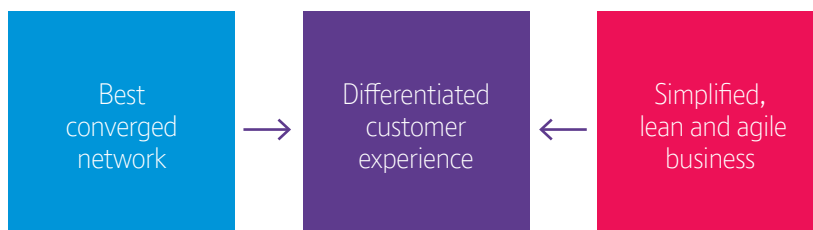
Our goal

Drive sustainable growth in value

Lead in converged connectivity and services, seize new business opportunities and deliver industry leading efficiency

Our strategy

Customer



Colleague

A brilliant place to work

Community

A valued partner helping build better digital lives

Our values

Personal

Simple

Brilliant

Strengths and opportunities

Our long-standing relationships with home and business customers give us a platform for continued investment.

Our investments result in long-lasting assets. This includes nationwide networks, where we are investing in the critical physical components – such as cabling, switches and routers – of the digital economy of the near future. Our strategy supports the building of a robust network that will underpin the growth of the digital economy, and enhanced connectivity in all parts of the UK.

Our network also creates a robust physical foundation for many uses in next generation technologies which need the best connectivity. We will own the foundation and therefore be in an unrivalled position.

We see significant opportunities in the advancement of Artificial Intelligence (AI) and machine learning, for new communications methods, such as virtual and augmented reality, and for connected devices. All of these opportunities require great connectivity, which we will need to support.

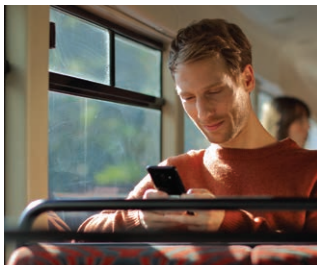
As a major player in the UK communications market we have a responsibility to do the right thing for the UK and make sure we operate within a fair regulatory framework and clear ethical boundaries. But being a player with substantial resources and a large and diverse customer base also gives us a real strategic advantage.

In global markets we are often a challenger to the incumbent, presenting an opportunity to innovate and move faster to deliver secure hybrid network solutions that support our customers' migration to new digital technologies.



For more on the risks that affect us see page 46.

Best converged network



Customers want fast, secure, seamless and reliable connectivity to enable their digital lives and businesses. Therefore we must deliver the best converged network in the UK through our rollout of FTTP and 5G.

 For more information see page 18.

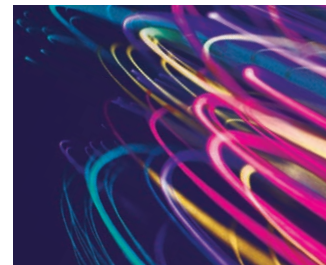
Differentiated customer experience



Consumers and businesses have more choice than ever about how they communicate and the company they choose to buy from. We want to deliver a brilliant experience to encourage existing customers to stay with us and do more with us, and to encourage potential customers to switch to us. We aim to offer easy, personalised experiences across our channels and deliver seamless digital services.

 For more information see page 16.

Simplified, lean and agile business



Markets today are more dynamic and competitive and we operate in a complicated and regulated space. We are creating a simplified and lean business with agile ways of working. This means continually modernising our organisation, changing how we work to do things better for less cost, and simplifying our products, processes and systems.

 For more information see page 20.

Strategic progress

Delivering a differentiated customer experience

Creating an outstanding customer experience for all our customers, backed by the best network, is central to our long-term growth and future success. We are making progress but we want to go further.

Everyone at BT is responsible for providing a brilliant customer experience. We want our customers to enjoy using the products, services and support channels that we provide.

We measure customer experience in two different, but complementary, ways: customer experience (based on Net Promoter Score) and how often we get things Right First Time (RFT).

We regularly review the priorities of both our consumer and business customers, and will be evolving our RFT metric for 2019/20 to reflect this.

Our evolved measure, Keeping Our Promises, is focused on us meeting the commitments we make and providing a more reliable service.

NPS has increased over 11 consecutive quarters, with this year's overall score 6.5 points better than last year's. RFT was up 5.4%.

These improvements are largely due to our consistent approach over the past three years, focusing on:

1. Delivering a consistent and reliable service

42

We have met or exceeded all of Ofcom's 42 Minimum Service Level targets on copper and broadband services

<1.8%

We now miss less than 1.8% of engineering appointments

2. Loyalty and value

600 shops

Customers can now talk to us face-to-face in more than 600 EE shops

45Mbps

Average broadband speeds for BT consumer customers is 45Mbps

3. Products that fit our customers' needs

90%

More than 90% of Samsung mobile phones were repaired on the same day

SD-WAN

Launched innovative converged business products such as SD-WAN

4. Enabling digital global business

180

Next generation SD-WAN is available in 180 countries

First

First foreign communications provider to be awarded a licence in China



1. Delivering a consistent and reliable service

The communications we enable are so essential to our customers that delayed orders, faults or service disruptions can cause significant distress. This year, therefore, our investments included:

- speeding up our ultrafast fibre rollout (FTTP), passing an average of c14,000 new premises every week in 2018/19.
- hiring over 4,000 new contact centre agents, and switching 800 from agency contracts to full time, helping cut call centre wait times for business customers by a third and for EE broadband customers by a half.
- increasing the proportion of all BT brand Consumer service conversations handled in the UK to around 83%, and working towards a target of 100%. All BT Plus, EE and Plusnet calls are handled in the UK
- improving our eChat service, which is now used by one in five BT brand Consumer customers for service queries.
- increasing our intake of engineering apprentices by around 1,700.

We are innovating to improve the experience of our customers. For example, we are using remote visual assistant technology to help our call centre agents and our engineers provide expert advice more quickly.

Openreach's proactive maintenance meant we had 2% fewer copper network faults than in 2017/18. Global Services transformation has enabled 71% of service incidents to be proactively detected. Openreach provided 99% of all customers with their first appointment date for a new service within 12 days, an improvement from 92% in 2017/18. Customer complaints to Ofcom reduced by a third for both BT's consumer broadband and EE's mobile customers when measured on a year-on-year basis.

Like many businesses, our complexity is still a challenge. But making our portfolio smaller and simplifying our processes will cut the cost and inertia that leads to poor customer experience.

Service progress around BT

- We have met or exceeded all of Ofcom's 42 Minimum Service Level targets on copper and broadband services.
- We now miss less than 1.8% of engineering appointments, 23% fewer than last year.
- Average Ethernet provisioning times went down 7.6% compared to last year.
- Enterprise won two golds at the UK Customer Experience Awards.

2. Loyalty and value

We want to reward customer loyalty by focusing on value for money.

There will be no price increases for our BT brand consumer broadband, line rental and mobile products in 2019.

We want to do more than just stop customers leaving. We want to build more loyalty across all our brands, by focusing on value for money. We want customers to increasingly get more for their money – whether that is faster broadband speeds or better mobile coverage.

Loyalty and value progress around BT

- Customers can talk to us face-to-face in more than 600 EE shops about BT broadband and TV and EE products and services, with a full BT service planned for the end of 2019/20.
- Average broadband speeds for BT's Consumer customers have improved 10% to 45Mbps.
- We now have nearly 3.4 million customers using our Call Protect product, preventing more than 220 million unwanted calls since launch in January 2017.

3. Products that fit our customers' needs

Our BT Plus convergence proposition includes mobile replacement, guaranteed minimum speeds and double mobile data allowances for customers.

BT Plus launched in May 2018 and has around one million subscribers. Complete Wi-Fi subsequently launched as an enhanced version of the service and the take up has been encouraging. BT Sport saw a 4% audience increase for English Premier League games and an 18% increase for Champions League coverage.

We also launched BT's new Stay Fast Guarantee to improve customer experience and reduce churn. We'll optimise connection performance for new and re-contracting customers and then monitor and proactively manage connection quality, offering £20 compensation if we cannot fix speed issues.

We launched EE Smart Plans to expand our differentiation and drive value through more for more offers. The handset plan came with Swappable Benefits to increase value and encourage migration from SIM only, whilst both handset and Smart SIM plans offer a Service Pack including annual device health checks, accessory vouchers and extended device warranties.

Openreach launched a new volume-related discount offer for communications providers to help them boost their customers' adoption of higher-speed and more reliable broadband services.

We have also started migrating customers to our all-IP digital platform. This brings opportunities for a range of richer experiences and propositions – from smart home technologies for consumers to sophisticated voice services for SMEs.

Products progress around BT

- We have launched innovative converged products for businesses such as BTNet, SD-WAN and cloud solution collaboration with Microsoft Azure.
- In TV, we are now a content super-aggregator with Netflix and Amazon Prime already available, and Sky (via NOW TV) on its way later in 2019.
- We launched a trial of fast mobile phone delivery through Enjoy on EE (within the M25) – offering customers delivery and set-up of their smartphone as quickly as two hours from placing their order.
- We launched a trial same-day repair service with Samsung where more than 90% of repairs were fixed on the same day and 80% in the same hour.
- We launched 4G Assure for our business customers, providing 4G connectivity if their fixed broadband service was not available. Half of new SME business orders now take this product.

4. Enabling digital global business

Our Global Services unit is refocusing on truly global customers. We are offering a smaller portfolio of repeatable, scalable cloud-of-clouds solutions – supported by market-leading security – to give customers flexibility, choice and control. We are also making processes smoother with self-service tools and automation.

Digital global business progress around BT

- Next generation, SD-WAN services are now available in 180 countries and we have launched two new Cisco and Meraki-based solutions.
- We were the first to market with Riverbed's 'Visibility as a Service', which allows customers to view and manage their application traffic.
- To help our customers migrate to the cloud, last year we added Google and IBM to the partners we already support on our Cloud Connect Platform.
- Last year, a BT joint venture was awarded domestic operating licences within China. This is a major step towards allowing us to better serve our multinational customers.

Strategic progress

Building the best converged network

The converged network we are creating is a long-term, sustainable asset. The investments we make today are the foundation of tomorrow's digital services and our future revenue.

Our aim is to bring together our mobile, broadband and wi-fi networks to lead the market for converged digital services, while reducing our network costs by switching off assets like legacy PSTN by 2025.

Our technology focus areas have stayed the same over recent years, aligned to meeting our customers' needs to connect and communicate. These are:

1. Superfast and ultrafast fibre

12.2m

We have 12.2m fibre broadband customers

3.2m

Number of homes and businesses in the UK passed by our ultrafast fibre

2. Current and future mobile

16

We will launch 5G in 16 UK cities in 2019

84%

The percentage of 4G geographic coverage in the UK

3. Network integration

First

EE is the first UK network to support all major smart home ecosystems

50%

By the end of March 2019 half of SME broadband sales came with 4G Assure



This year we made good progress, which will continue next year. More of our customers took up superfast broadband products and we increased the pace of our investments in ultrafast.

Ultimately, our ambition is to lead the UK to 5G. We are starting to roll out our 5G network, with 16 UK locations going live in 2019. We are proud of still being the best network in the UK for current technologies, such as 4G.

We believe fibre is the future fixed connection to homes and we are rolling it out as fast as possible. We are increasing our aim of bringing FTTP from three million to four million properties by the end of March 2021, and our ambition to go from ten million properties to 15 million by the mid-2020s, subject to conditions being right.

To keep us in the lead for mobile, we are switching 3G signal to 4G and upgrading 4G sites to enable more spectrum and give customers a better experience. In 2018 we also acquired the spectrum we needed to start rolling out 5G. There is another spectrum auction happening in Spring 2020 where we expect to bid for more.

Commercial success increasingly depends on innovation, which is why we invest in research and development.

We are constantly looking at new innovations to deploy – like edge computing to cut network congestion and speed up application performance.

This year we invested £643m (2017/18: £632m) in innovation. Over the last decade we've been one of the largest investors in innovation in the UK, and globally in the telecoms sector.

We have a portfolio of more than 5,000 patents and applications, with 103 patents for inventions filed in 2018/19.

1. Superfast and ultrafast fibre^a

We have now rolled out ultrafast fibre to 3.2 million homes and businesses. As part of the Openreach full fibre rollout, we are progressing build in 26 locations and in April announced a further 12 locations to benefit from FTTP availability. This includes London, Birmingham, Leeds, Manchester, Bristol, Cardiff, Edinburgh and Liverpool.

Superfast and ultrafast progress around BT

- We have 12.2 million superfast fibre broadband customers, within our footprint of 27.5 million covering 86.6% of homes and businesses.
- Our ultrafast fibre footprint now reaches more than 3.2 million homes and businesses.
- EE will offer ultrafast broadband to customers in summer 2019.
- We are working with government and Ofcom on options for a broadband Universal Service Obligation – to provide 100% of UK homes and businesses with a minimum speed of 10Mbps by 2020.

2. Current and future mobile

In August, RootMetrics named EE as the UK's best network for the fifth year in a row. Using Ofcom measures, our mobile network now provides 84% geographic coverage in the UK. We aim to be the UK's first mobile provider to offer 5G, launching in 16 busy UK cities in 2019.

Mobile progress around BT

- We've switched on 5G sites in East London and are rapidly launching more. We have also trialled live 5G in Canary Wharf.
- We announced a partnership with OnePlus on 5G in the UK. EE will be the first mobile operator in the world to offer the OnePlus 5G smartphone.
- We continue to increase capacity on 4G sites, laying the foundation for our 5G launch, and we have built more than 350 new 4G sites in the last 12 months to connect previously unconnected rural communities.

3. Network integration

We are bringing together our market-leading mobile, broadband and wi-fi networks into one converged, digital network to give customers seamless connectivity wherever they go. It will be the first of its kind in the UK. It is scheduled for completion in 2022 and when it launches it will signal a new era of connectivity.

Network integration progress around BT

- EE showcased Hybrid Broadband, combining mobile and fixed connections in one service.
- EE is the first UK network to support all major smart home ecosystems – with partnerships including Google, Apple, Alexa, Hive and Nest.
- We launched broadband with 4G Assure for SME customers to keep their broadband running if the fixed connection is lost. By the end of March 2019 half of SME broadband sales came with 4G Assure.
- We created a team dedicated to partnering with innovative converged technology companies to introduce new content, smartphones and smart home technology.
- Since EE launched shared data plans there have been more than three million data gifts between customers.

^a Superfast fibre broadband refers to fibre-to-the-cabinet (FTTC). Ultrafast broadband refers to fibre-to-the-premises (FTTP) and Gfast.

Strategic progress

Creating a simplified, leaner and more agile business

This year we have continued to focus on modernising our organisation, to put customers at the heart of what we do.

We simplified our structure by bringing together our Consumer and EE businesses and our Business and Public Sector and Wholesale and Ventures businesses to create two new customer-facing units – Consumer and Enterprise.

We are changing our culture to bring it more in line with the dynamic company we want to be. That includes changes to the way we manage performance, our job categories and inter-team working.

Our specific focus areas are:

1. Simplifying products, processes and systems

4

Number of customer-facing units reduced from six last year

3. Strategic sourcing

67%

Around 67% of our spend is with our top 100 suppliers

2. Building a more modern, productive operation

£875m

Overall cost savings from our cost transformation programme are currently an annualised benefit of £875m with an associated cost of £386m

4,029

Roles removed in the year through our cost transformation programme

To transform our business we need a simpler, flatter and more modern organisational structure. This means having broader, more accountable roles; fewer job levels; market-aligned pay; and clearer career paths that support individuals' development.

Last year we committed to reshaping our workforce by reducing roles in the UK and overseas by 13,000 over the next three years, with a focus on senior and middle management roles and by getting smarter about how we operate.

We are on track against our restructuring plans with reductions in senior management balanced with hiring in our front lines – engineers and contact centres. This includes hiring more apprentices into Openreach to resource our integrated network and fibre rollout programmes.

In contact centres, we are recruiting more people to help improve the experience of our customers when they get in touch with us. Balancing the reductions in management roles with the increases in contact centre and engineering roles will leave a net reduction of around 7,000 roles by March 2021.

We are working with our people to ensure those affected by changes are supported through the change process.

We are one of the biggest private sector recruiters of apprentices in the UK by a significant margin. We are also popular – last year there were 63,000 apprentice applications for almost 4,000 places.

We aim to reshape our workplaces to make working for BT feel more like working for a modern technology company. We have started to roll out a more open working culture. This includes more teams working in the same buildings to boost productivity, innovation and inter-team working, supported by a wider range of collaborative software.

We are also speeding up ways of working. This means quickly bringing together teams for specific projects, then dissolving them when the project has finished. We are also letting people work in more fluid ways, encouraging more collaboration and cross functional working than we had before. We are creating more opportunities for people to test, learn and try again.

We have around 7,000 properties in the UK and 1,678 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 lease back arrangement with them in 2001. Eighty-seven per cent of our UK properties are operational sites housing fixed and mobile telecoms and

broadband kit. These are retail outlets, offices, contact centres, depots and data centres. We also have BT Sport TV studios in London.

To enable these new working practices, we are creating and investing in more modern, fit-for-purpose office environments. For example, we are focusing on around 30 modern, strategic sites to create a more collaborative, open and customer focused working culture.

We recently carried out a review of the structure, composition and operation of our Board committees to speed up executive decision making and improve overall governance. Changes were approved and implemented by the Board in April 2019.



For further information please see page 56 of the Governance report.

1. Simplifying products, processes and systems

Our large portfolio of products and services is complicated for customers and is resource-intensive to support.

We are starting to simplify our products and services and streamline our IT systems and processes. This will reduce additional work and duplication and help us keep our promises to customers more quickly and reliably. It will also give us a springboard to become the efficient business we need to be to thrive in the future.

Simplifying operations progress around BT

- We brought together our Consumer and EE businesses, integrating teams under a new multi-brand operating model.
- We integrated our Business and Public Sector and Wholesale and Ventures businesses into Enterprise to strengthen services and products and help customers move to converged technologies.
- Global Services restructured its operating model to create a new sales organisation around three global industry verticals, supported by a single, global commercial unit. This will give us deeper focus on fewer customers, improving their experience of doing business with us.

2. Building a more modern, productive operation

We know that becoming more efficient will make us more productive in the future, better able to offer a truly differentiated customer experience.

To do that we need a smaller workforce in some areas and a larger one in others. Our recent investments in front line contact centre people and engineers are part of our plan to put resources, support and decision making as close as possible to our customers.

To further boost productivity we also need our people to have better places to work and better digital skills. These will enable much greater customer focus.

Productivity progress

- Our better workplace programme is reducing the number of sites and upgrading those that remain.
- Our cost transformation programme remains on track, with c4,000 roles removed in the year.
- Overall savings from our cost transformation programme are currently an annualised benefit of £875m with an associated cost of £386m.
- Outsourcing of our UK and Republic of Ireland facilities management and projects and construction teams took effect on 1 April 2019. This has resulted in approximately 1,900 employees transferring out of BT.
- Openreach is committed to achieving a world-class cost base to underpin our fibre build and has integrated key network delivery teams to improve efficiency.
- In Global Services we are redesigning our service and portfolio operations to focus on the needs of our largest multinational customers.

3. Strategic sourcing

Through strategic sourcing, we delivered significant savings in 2018/19 and we are on track to deliver more savings in the future.

This approach is changing the way we think about procurement, which is also helping suppliers. Thinking earlier helps them optimise their own supply chains to support our future plans. This gives everyone more certainty and cuts back on unnecessary cost, which in turn improves our customer experience.

Strategic sourcing programme

- We are further rationalising our supplier base to reduce risk and cost.
- We are signing better value multi-year deals with more of a partnering ethos.
- We are working with our suppliers' suppliers to cut raw material sourcing costs.

Our stakeholders

We rely on our stakeholders for our success as we build the UK's national digital infrastructure.

Our main stakeholders are customers, our people, the communities in which we do business, the environment, shareholders, suppliers, government and regulatory bodies.

Customers

We offer our customers the latest technologies and services to enable them to communicate, share, be entertained and do business. We deliver and support these products and services to build valuable, high-quality, long-term and sustainable relationships.

Our 28 million customer base is integral to our success. Our customers are consumers, businesses, multinational corporations, public sector organisations and other communications providers.

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

Everything we do starts with the aim of delivering a differentiated customer experience to generate value and create loyalty.



You can find more information on how our customers fit into our business model on page 12.

People

Our people are central to the transformation of our business, and our ability to deliver our vision, goals and strategic priorities.

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 brilliant place to work. We want to deliver an outstanding customer experience by getting our employee experience right. That means making BT a place where our people feel engaged and inspired to be at their best.

At the heart of this are our values:

Personal
Simple
Brilliant

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

+3pp	+2pp	+3pp
Improvement in our personal score (78%)	Improvement in our simple score (64%)	Improvement in our brilliant score (73%)

Eighty-four per cent of our people know how to use our values in their every day work, which helps us to provide our customers with a differentiated customer service.

We know that we still need to do more and make it easier for our people to make things happen for our customers. As a result we have introduced the RAPID® (Recommend, Agree, Perform, Input, Decide) framework.

RAPID® helps us be clear about the accountabilities for key decisions, which fosters speed, effectiveness and greater empowerment. We are embedding the framework through training our leaders across the organisation in how to use it.

Engaging our people

We are proud that BT people continue to live by our values – personal, simple, brilliant – and that their engagement keeps improving.

Our most recent annual engagement survey in January had an extremely high response rate of 87% and our year-on-year people engagement score increased by three percentage points to 77%.

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.



You can find more information on how we are reshaping our organisation and ways of working on page 21.

BT people at a glance



106,700

We employ 106,700 full-time equivalent people in 60 countries, 84,300 of whom are in the UK. We employ an additional 2,000 FTE people through agencies.

16,000

This year, excluding acquisitions, we hired almost 16,000 people, 12,300 of whom were UK-based.

4,000

In 2018/19 we took on almost 4,000 new apprentices and more than 400 graduates.

1,400

We converted just under 1,400 agency workers to permanent, 800 of whom were in contact centres.

70%

The average age of our workforce is reducing with 70% under 50.

14,700

In 2018/19, 14,700 people left the company. 10,800 left through natural attrition, and 3,900 through paid leaver programmes as part of our drive to create a simple, lean and agile business.

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

Building skills for future careers

We are reshaping our workforce profile to meet the evolving needs of our customers and the changing technology landscape.

We have continued to invest in apprenticeships and graduate programmes in all disciplines, mainly engineering, cyber, technology and customer operations. We complement functional skills with front line and future leader programmes which prepare our people for people management roles.

We are also focusing on hiring and developing talent to meet rising demand for digital and security skills over traditional telecommunications skills. For example, we have a Digital Academy in Consumer, we are building digital media and data insights teams in Enterprise, and in Global Services we are developing cloud computing and cyber skills at scale.

As we transition from PSTN to a modern, all-IP fibre network, we need to develop different skills. In Openreach we are addressing this increased demand with our 'Open Street' training facilities, which replicate a complete end-to-end network – from fibre to copper. They also recreate the homes and streets that our engineers encounter and provide a safe, real time environment to master new skills quickly. For example, 'real' scenarios can be created for students, including blocked ducts, open joints and intermittent faults. We plan to invest a further £11m and by 2021 have 11 fully operational Regional Training Centres all with their own 'Open streets'.

This is part of our overall focus on improving digital skills – helping us contribute to the future success of the digital UK, improve our customers' ability to connect, create demand for our future products and feed our talent pipeline.



For more information on our digital skills programmes see page 25.

Supporting our people in their careers

Careers are becoming more flexible. Many of our people want portfolio careers with different phases. Newer generations recognise that they might work for longer than their parents but don't necessarily want jobs for life; they want to do different things and learn different skills.

We are making changes to our culture to keep abreast of these trends. We are working to attract and retain a diverse workforce, invest in our people's development, promote their health and wellbeing and help them save for a better retirement.

As we reshape our workforce we are also providing a new career philosophy with greater transparency, clearer choice and a focus on skills for the future.

We continue in our positive approach to recruiting and developing disabled talent as part of our vision to be a disability confident employer. Our range of support services and our processes support our managers to making the necessary adjustments for new or existing disabled persons within BT.

Health and wellbeing

Employee wellbeing is one of the biggest contributors to organisational health and business success. Our aim is to build a team of engaged, healthy people who are fulfilled at work.

Our approach to wellbeing reflects this. We provide access to employee assistance globally, and we are making it easier for our people to get mental health support through early access counselling services. We have expanded our peer-to-peer scheme and manager training on mental health both in the UK and internationally. Our success rate in getting people with mental illness back to work has risen to 96.5%.

The support available to our managers and team members helps us maintain a low absence rate of 2.36%. We have strengthened our support in managing and coping with change to help our people and managers work through the changes in our business.

We continue to drive focus on safety and assurance programmes. Our lost time injury rate is currently 0.24 working hours per 200,000 working hours, with an increase against a low baseline impacting the results. We track incident trends very closely and have not seen a pattern to the increase but continue to monitor this monthly.

Our stakeholders continued

Working to improve our diversity



24%

Around 24% of our workforce (26,100) and 28% of our management (13,700) are women, including three out of 11 Board members. Our workforce includes around 79,800 men, with 34,000 of these in management roles.

12%

Around 12% of our UK people have a black, Asian or minority ethnic background.

5.0%

This year, BT's overall median gender pay gap is 5.0%. Our mean gender pay gap is 5.9%. This is roughly the same as last year.

- We are redesigning our technology apprentice and graduate schemes to reduce the risk of selection bias.
- We have active people networks for Gender, Disability, Ethnicity, LGBT+ and Neurodiversity. All have senior sponsors and charters aligned to our strategy.
- We continue to develop long-term initiatives such as TechWomen, furtHER and STEM Returners to help the organisation retain and nurture female talent.

Pay and benefits

We regularly review our pay and benefits. 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.

Incentives for Openreach are tied to a combination of personal contribution and Openreach's performance, not Group performance. And these are paid in cash, not BT shares.

We support our people through retirement savings plans, employee share schemes and country-specific benefits.

Volunteering

This year, we took the decision to no longer focus purely on the proportion of our people who volunteer, which is why the volunteering participation rate dropped to 26%. Instead we will refocus our volunteering efforts on digital skills – the area we think will deliver the greatest impact for the UK and BT.

In the year ahead we'll develop a new target, that better reflects the impact and growing contribution our people are making through volunteering. As an example, this year just over 2,500 of our people contributed more than 6,700 days supporting digital skills programmes and helping young people prepare for the world of work.

Helping people save for a better retirement

Over the past two years we have worked to change the way our people save for retirement. This ensures that our pensions are fair, flexible and affordable for all members and also helps manage our future risks and costs.

The BT Pension Scheme (BTPS) triennial valuation process ran in 2017/18. In 2018/19 we concluded our UK Pensions Review, agreeing the closure of Sections B and C of the BTPS to future accrual with members moving into the BT Retirement Saving Scheme (BTRSS).



For further information on our pension scheme, see page 145.

Communities

Our communications products, services, networks and people are vital to the communities in which we operate. Our place at the heart of so many communities also makes it important that our business practices are ethical and transparent.

Our total investment in society in 2018/19 was £28.7m – 0.83% of adjusted profit before tax. Although this was below our target of 1%, we remain committed to the target and have invested £194.9m at an average of 1.02% over the last five years.

Going forward, this investment will mainly be directed towards digital skills. This has led to some difficult decisions, like the closure of our fundraising platform, MyDonate, in June 2019.

Introduced in 2011, MyDonate was the UK's first fee-free platform, but there are now many other providers in the market. We're proud of what we achieved, helping raise more than £400m over the last nine years. But it is now time to lead in another important area for the UK. Our work with charities and other partners will increasingly focus on digital skills. We will continue to report on our ambition to use our skills and technology to generate more than £1bn for good causes by 2020, but it will no longer be a business priority. Since 2012/13, we've

used our technology and expertise to help generate more than £646m for good causes, including £109m this year.

Digital skills

The UK faces a major digital skills challenge and we are in a unique position to help tackle this. We are fundamental to the UK's ambition to be a leading digital economy. We take our responsibilities very seriously – investing in nurturing the skills needed by everyone to flourish in the digital world.

Doing so serves a number of our stakeholders as well as creating the potential for future demand for our products and helping us to adapt our workforce.

We're increasing our efforts with a major push to encourage and equip our customers and communities to upgrade their digital skills and capabilities.

To reflect our ambition in this important area, we have set a target to reach ten million people in the UK with digital skills training by 2025. This supersedes our existing target (to help ten million people overcome social disadvantage through the benefits our products and services can bring) with a more focused and measurable programme.

This new target builds on our existing investment in young people. In a world where life and work increasingly depend on technology, giving today's school children the right skills will be critical to their success.

Barefoot Computing, our partnership with BCS, the Chartered Institute for IT, operates in around 60% of UK primary schools and helps young people (aged five to 11) develop their computational thinking skills as part of the computer curriculum. BT volunteers have helped to train more than 70,000 teachers. Through them, Barefoot has reached more than two million children since 2014.

BT has become the first strategic partner of the new National Centre for Computing Education (NCCE). This initiative from the Department for Education is designed to improve the reach and quality of computing teaching across England. Among other things, we'll be bringing Barefoot to the heart of the NCCE's offer for primary schools.

Championing human and digital rights

We're committed to respecting everyone's basic rights and freedoms – both online and offline. The nature of what we do means we must protect customers from online harm, safeguard their privacy and security and support their right to free expression. Our *Digital Impact & Sustainability Committee*, a board committee, oversees our human and digital rights programme.

What the digital skills gap means for the UK



65%

The percentage of children starting school today who will have jobs that don't yet exist.

11.3m

The number of adults who lack basic digital skills.

3 in 4

The number of UK businesses who report internal digital skills gaps.

£63bn

The estimated annual impact of the digital skills gap on the UK's future competitiveness.

The above data has been drawn from external sources.

Boosting digital skills and inclusion

- We're helping SMEs with digital skills, through initiatives including workshops run by BT Sport and Google Digital Garage. We held 11 workshops and coached over 1,000 BT Sport commercial customers to enhance their online profiles.
- Our BT furtHER programme in partnership with 'Code First: Girls' is a free full-time digital intensive programme that gives women the opportunity to move into a technical career. Twenty-one women from the first programme have transitioned into software developer roles in technology.
- EE partnered with 'Action On Hearing Loss' to give mobile plans and service to the one in six people in the UK who have hearing loss.
- We've partnered with the British Asian Trust in India on a programme that aims to empower 500,000 adolescent girls through technology and education.
- Our funding and technical expertise is helping Jāngala, a tech start up, develop easy to deploy wi-fi systems for refugee camps and in a wide range of humanitarian situations in Italy, Serbia and the UK.

This year we launched a new overarching human rights policy, and reported on modern slavery, privacy and freedom of expression. We collaborate on privacy and free expression challenges through the Global Network Initiative.

We want to lead the way in tackling modern slavery through technology. This year we co-founded and launched Tech Against Trafficking, a coalition of organisations including Amazon, Vodafone, AT&T, Microsoft, Nokia, Salesforce and anti-trafficking experts, to work together on the challenge. We also partnered with the UK charity Unseen to extend the reach of the UK Modern Slavery Helpline through a smartphone app.

We comply with the Modern Slavery Act and follow international standards on human rights, such as the International Labour Organisations Principles and the UN Guiding Principles on Business and Human Rights. We have contractual standards on working conditions to avoid forced labour. We also have processes in place to assess the risks of our suppliers not meeting these conditions. We work with EcoVadis and the Responsible Business Alliance to inform our assessments. We will follow up with our suppliers on any improvements needed. For higher risk sites of concern, we go to see the working conditions for ourselves.



For more information on human and digital rights, see btplc.com/digitalimpact and [sustainability/humanrights/modernslavery](https://btplc.com/sustainability/humanrights/modernslavery)

Our stakeholders continued

The environment

Our products, supply chain and operations all have an impact on the environment. We are taking a leadership role in tackling climate change and have a target to become a 'net zero' carbon emissions business by 2045.

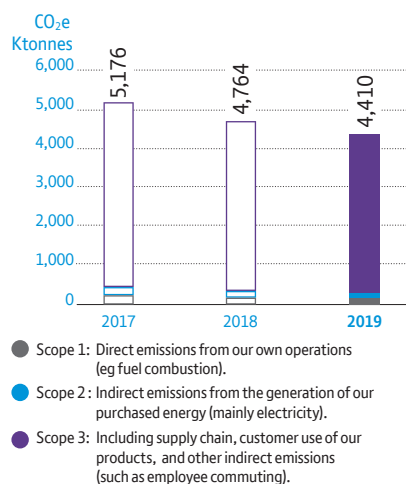
The Intergovernmental Panel on Climate Change report published in October 2018 has underscored the importance of urgently tackling climate change. We continue to work in areas we control, while also being active in driving change with our customers, suppliers and other stakeholders.

Cutting our emissions and energy use

This year our energy consumption dropped by 2.24% and we reduced our total end-to-end worldwide CO₂e equivalent (CO₂e) emissions by 7.4%.

We have saved around £298m since 2009/10 through more efficient cooling systems, modernising data centres, optimising our networks, introducing LED lighting and installing energy management systems. This year we celebrate our tenth year of investment in energy reduction programmes, through which we have consistently delivered energy

Our worldwide greenhouse gas emissions^a Year ended 31 March



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

Becoming
a net zero
carbon
emissions
business



In October 2018 we pledged to become a net zero carbon emissions business by 2045. This extends our 1.5°C science-based target to reduce the carbon emissions intensity of our operations by 87% by 2030 (against a 2016/17 baseline). There are three main areas we are focusing on to achieve this:

- purchase 100% renewable electricity worldwide by 2020 where markets allow. We are currently at 87%. This year, we agreed new contracts to power EE's mobile network with renewable electricity meaning that in the UK, 100% of our directly purchased electricity is now from renewable sources
- convert our fleet to ultra-low emissions vehicles
- decarbonise our buildings.

Our CO₂e emissions Year ended 31 March

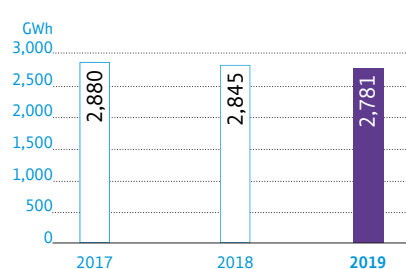
CO ₂ e Ktonnes	2017	2018	2019
Scope 3	4,772	4,387	4,112
Scope 2	222	193	114
Scope 1	182	184	184
Total	5,176	4,764	4,410

Scope 1 + 2 intensity:
(CO₂e tonnes per £m value added)

31	29	23
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We now include all scope 3 emissions in our reporting. Figures exclude third-party consumption. Scope 2 data uses market-based calculation. For full methodology and further data see btplc.com/digitalimpactandsustainability

Our worldwide energy use Year ended 31 March



consumption savings. There will be further savings as energy efficiency reduces our environmental impact and plays a part in overall cost transformation.

Helping customers lessen their impact

Our products and services help our customers reduce carbon emissions – for example, through avoiding travel and becoming more efficient.

Last year our products and services helped our customers avoid 11.7 million tonnes of carbon. That is the equivalent of the carbon emissions of around three million UK households.

Carbon in our supply chain

The products we sell are manufactured in our upstream supply chain and we continue to work with key suppliers to reduce their carbon impact.

Wider environment aspects

We are reducing plastic waste from our products and from our operations. We track this through our Environmental Management System. Our people are passionate about reducing plastic use within BT. More than 4,500 BT people signed our recent internal plastic pact, pledging to cut their plastic use at work and at home.



For more on this, and on other environmental matters, see our Digital impact and sustainability report btplc.com/digitalimpactandsustainability

Shareholders

We have two main shareholder groups: institutional investors and individual shareholders. We also have debt investors.

As a consequence of privatisation in 1984, most of our c829,000 shareholders are individual shareholders, although institutional investors hold the biggest volume of shares.

We have an extensive investor relations programme aimed at keeping existing and prospective investors informed. In 2018/19, we held 500 meetings or events with institutional investors (2017/18: 450).

This year we reduced our quarterly disclosures to encourage investors to focus on longer-term trends.

We keep all shareholders up to date through regular communications, including the Annual Report, AGM and our quarterly financial and trading statements.

Debt investors

We have an investment-grade credit rating based on the strength of our balance sheet.

Our relationship with debt investors, mainly financial institutions who invest in our publicly-traded bonds, is key to making sure we have access to debt capital to finance our business.

Suppliers

Our thousands of suppliers are a vital part of our value chain. Because of our size, we are also a vital part of theirs.

Our suppliers provide products and services that help us execute our strategy. We source from across the world and have suppliers in nearly 100 countries. Our integrated fibre and 5G network will require significant capital investment, and procurement savings are key to funding this.

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

- choose suppliers using principles that make sure we act ethically and responsibly
- check that goods and services we buy are made, delivered and disposed of in a socially and environmentally responsible way
- measure factors such as suppliers' energy use, environmental impact and labour standards as well as working with them to improve these.

We are a signatory of the UK Prompt Payment Code and support government initiatives to encourage small business growth.

Supplier risks

There has been recent commentary on how national security could be compromised at the level of some of the foundation technologies in national communications networks. Our approach is to focus on sourcing a range of the best technologies in the core of our networks, from a wide range of places.

We also face a continual challenge to ensure the quality and ethical integrity of our supply chain. You can read more about our supply-related risks on page 52.

Valuing our suppliers

£13.4bn

We spent around £13.4bn with suppliers this year (2017/18: £13.7bn). This is around 66% of our costs.

67%

Around 67% of our spend is with our top 100 suppliers.

52 days

New legislation in 2018 introduced a duty to report (DTR), requiring the UK's largest companies to report on their payment practices, policies and performance. Reporting from 1 October to 31 March (H2), BT plc's average time to pay invoices was 52 days with 92% of supplier invoices paid in accordance with terms agreed with the supplier.

Our stakeholders continued

HM Government

We work with over 1,800 UK public sector customers and support critical services in the UK.

Our networks enable vital services, such as welfare, tax, health and social care, police and defence, to function – while protecting citizens' personal data.

Civil resilience and other obligations

Under the Communications Act 2003, the Government can ask us (and others) 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 sometimes also oblige us to act in the interests of national security.

Our public affairs team is responsible for relationships with the Government on all issues of policy. Our Enterprise team is responsible for selling and maintaining public sector contracts and services.

Regulators

Communications and TV services are regulated in the UK and around the world. Regulation helps ensure that there are consistent rules and standards within each jurisdiction to protect consumers and promote competition.

Our main regulatory relationship is with Ofcom in the UK. Ofcom operates under the Communications Act 2003, which gave it its powers and duties and transposed the EU regulatory framework for electronic communications in the UK.

Under the Act, Ofcom sets conditions that communications providers must adhere to. Ofcom's main duties in respect of communications are to further the interests of citizens and consumers, where appropriate by promoting competition. In doing so it must also have regard, where relevant, to the desirability of encouraging investment and innovation. Ofcom has general competition powers for the sector and enforces consumer law, alongside other economic regulators and the Competition and Markets Authority.

We aim to be leaders in full fibre and 5G, and launch a UK converged network. This will benefit our customers, as well as the UK more widely. Our dialogue with Ofcom focuses on how the regulatory regime can help its ambition for the UK, while keeping the market fair and competitive.

In 2018 we implemented the Commitments we gave to Ofcom to provide Openreach with greater strategic and operational independence following its Digital Communications Review. Ofcom reported it is broadly satisfied with our progress. This included incorporating Openreach Limited as a wholly owned subsidiary of BT Group plc, with its own board and greater strategic independence. It also included completing the TUPE transfer into the new Openreach Limited of 31,000 employees from BT plc.

We continue to monitor and provide assurance to Ofcom on our compliance with the Commitments. We are currently working to make our internal processes and information sharing between BT and Openreach more transparent.

Future Telecoms Infrastructure Review

In July 2018, the Government published its Future Telecoms Infrastructure Review which concluded that the most effective way to deliver nationwide fibre connectivity at pace is to promote competition and commercial investment where possible, and to intervene where necessary. Ofcom's subsequent policy documents signalled a shift from emphasising retail competition to facilitating competitive investment in full fibre.

The Government's February 2018 consultation on its statement of strategic priorities for Ofcom reiterates its ambition to see 'gigabit capable' networks available to 15 million premises by 2025 and nationwide by 2033. This is alongside an ambition to extend mobile coverage to 95% of the UK by 2022. This desire to see the UK as a world leader in digital infrastructure fits with our desire to invest more, and aligns with our strategic priority of building the best converged network.

Consumer regulation

UK regulators have consumers' interests as a priority. One area of attention is different pricing between new and existing customers. We aim to provide all our customers with great value, with offers that are fair and right for them. We also help our EE customers make sure they are on the best value deal by telling them when it's time to reconsider their contracts and offering them alternatives. We will be implementing end of contract notifications for all of our BT and Plusnet customers too.

Decent broadband for all

The Government has committed to implement a Universal Service Obligation for 10Mbps broadband from 2020 and Ofcom is working to deliver this. It issued a consultation in December 2018 proposing to designate BT and KCom as Universal Service Providers. We are working with Ofcom to look at how to deliver this efficiently and in a way that provides a good experience for customers.

Wholesale regulation

In December, 2018 Ofcom issued a consultation on Physical Infrastructure Markets and Business Connectivity Markets setting out how it intends to regulate up to 2021. It has also started consulting on a clear, predictable and long-term framework for regulation from 2021 onwards. This framework envisages longer (five-year) market review periods (instead of the current three-year reviews). On balance, we welcome Ofcom's approach, including its shift toward regulating passive infrastructure where it enables deregulation further downstream.

In its consultation on Physical Infrastructure Markets, Ofcom proposes to extend the existing access obligation applicable to BT's ducts and poles, currently limited to mixed residential and business broadband, to deployments of any fixed networks including standalone leased lines. The proposal is for this to start one month after publication of its final statement, expected in Q1 2019/20. We understand the importance Ofcom attaches to unrestricted ducts and poles access and have indicated our willingness to work with Ofcom on the detailed implementation of the proposals, including how to ensure a sustainable long-term pricing regime ahead of the 2021 market review period.

In its consultation on Business Connectivity Markets, Ofcom proposed to remove regulation of legacy business connectivity products and deregulate additional BT exchanges and data centres. Ofcom also proposed to maintain stable wholesale pricing in these markets to support investment in full fibre. While positive overall, some of Ofcom's proposals are less helpful, for example its proposed obligation on us to provide dark fibre from BT-only exchanges which in our view is not consistent with the desire for greater investment nor necessary to promote competition given passive infrastructure access. We are continuing to engage with Ofcom on this and expect it to say more in 2019.

Spectrum

In the mobile area, 2018's spectrum auction gave us the bandwidth we needed to start rolling out 5G. The next auction is expected in spring 2020 which we intend to participate in.

Simplifying regulatory reporting

Understanding the economics of the services we provide in regulated areas of our business is important. We are working with Ofcom to improve our reporting to become relevant, transparent and more focused in order to get better quality insight.

EU regulation

Brexit may have a significant effect on regulation. Until we know how the UK will exit the EU, we cannot know what that effect will be, but we have made contingency plans.

Where we do business in EU countries, electronic communications networks and services are governed by directives and regulations set by European institutions. These create an EU-wide framework for fixed and wireless telecommunications, internet, broadcasting and transmission services.

The directives are there to encourage competition, leading to better investment in fixed and mobile networks, and to protect consumers. They require independent national regulators to review markets for significant market power regularly and to put in place fair and proportionate remedies. They also include rules covering spectrum authorisation, consumer protection and universal service obligations.

This framework was updated in 2018 in the form of a new European Electronic Communications Code (EECC). We believe the EECC is largely positive – making it easier for operators to roll out ultrafast fixed and mobile networks.

Other international regulation

Regulation in international markets varies widely. This can stop us competing and providing the services our customers want. We keep driving incumbent operators around the world, and their regulators, for fair, cost-related wholesale access to their networks.

Our key performance indicators

We have achieved our customer experience target for the year, but want to go further. Our results were in line with the financial guidance we set in May 2018 for adjusted EBITDA and normalised free cash flow. We exceeded our target for change in underlying revenue. Our capital expenditure (excluding BDUK clawback) was slightly ahead of our guidance as we accelerate our network investment.

We use four key performance indicators (KPIs) to measure progress against our strategy; one non-financial and three financial. Our non-financial KPI is improvement in customer service, which is measured using our Right First Time metric. Our financial KPIs are: change in underlying revenue; adjusted earnings per share; and normalised free cash flow.

As explained on page 16 we will be evolving our Right First Time metric for 2019/20 to reflect the commitments we make to customers and providing a more reliable service. This evolved measure will be renamed Keeping Our Promises.

We also measure customer experience through Net Promoter Score (NPS). This is up 6.5 points from last year and has improved over 11 consecutive quarters. From 2019/20 we will be reporting this as one of our non-financial KPIs.

As our strategy evolves we will continue to review these KPIs to make sure they are the best measures to reflect our performance against our strategy.

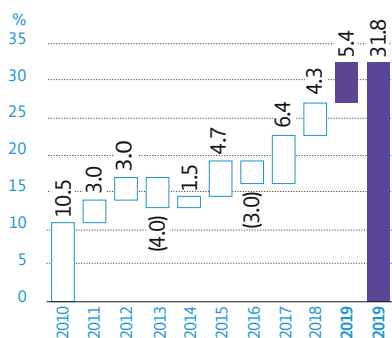
Customer service

Right First Time is our main measure of customer service. It tracks how often we keep our promises to customers. This could be keeping to appointment times, completing orders in the defined timeframe or fixing faults within an agreed period. As well as improving service and the customer experience, keeping our promises should reduce the work required to fix mistakes, and so reduce our costs.

+5.4%

Right First Time was up 5.4% (2017/18: up 4.3%).

Right First Time improvement^a
At 31 March



Improving the service we deliver is key. We're making good progress and every customer-facing unit has improved its Right First Time score. Despite these improvements, our strategic priority is to truly differentiate ourselves on customer experience, and we will keep looking for ways to do that. You can read more about our differentiated customer experience on page 16.

^a Cumulative improvement from 1 April 2009.

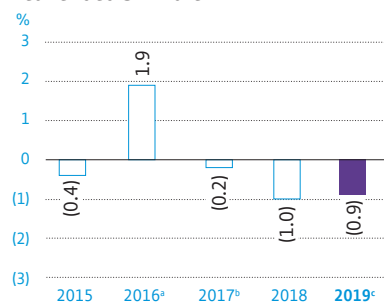
Change in underlying revenue

Underlying revenue reflects the underlying performance of the group that will contribute to long-term sustainable growth. We exclude the impact of specific items, foreign exchange movements, acquisitions and disposals.

(0.9)%

Change in underlying revenue was down 0.9% (2017/18: down 1.0%) which exceeds our outlook of down c2%.

Change in underlying revenue
Year ended 31 March



Change in underlying revenue was down as growth in our Consumer business was more than offset by regulated price reductions in Openreach and declines in our enterprise businesses. We explain more about the performance of our customer-facing units from page 40.

^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.

^c Calculated including the impact of transit, which is no longer material.

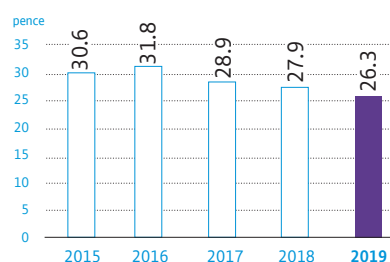
Adjusted earnings per share

Adjusted earnings per share is the adjusted profit after tax attributable to shareholders excluding the impact of specific items, divided by the weighted average number of issued shares. This makes it a comparable and consistent way of measuring our business performance over time.

26.3p

Adjusted earnings per share decreased 6% to 26.3p (2017/18: down 3% to 27.9p).

Adjusted earnings per share Year ended 31 March



Adjusted profit after tax decreased 6% to £2,611m this year, reflecting lower revenues partly offset by lower payments to telecommunications operators driven by Global Services strategy to de-emphasise low margin business.

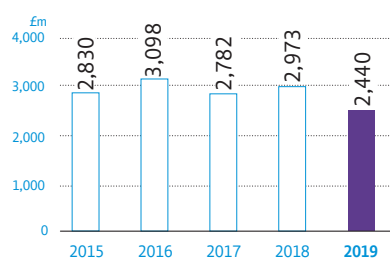
Normalised free cash flow

Normalised free cash flow is free cash flow (net cash inflow from operating activities after capital expenditure) after net interest paid, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

£2,440m

We generated normalised free cash flow of £2,440m. This was down £533m from last year and is in line with our outlook of £2.3bn to £2.5bn.

Normalised free cash flow Year ended 31 March



The fall of £533m or 18% in our normalised free cash flow mainly reflects increased cash capital expenditure as we increase our investment in fibre and 5G, decrease in EBITDA and higher tax payments.

Alternative performance measures

Reconciliations of these financial measures to the closest IFRS measure are set out in the **Additional Information** section from page 185.

Our performance as a sustainable and responsible business

Non-Financial Reporting Information Statement

Our integrated approach to reporting means that the requirements of the 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 25); Our people (page 22); Social (page 24); Environmental (page 26); Anti-corruption and bribery (page 32).



For more information on our codes of practice and employee policies, see btplc.com/thegroup/policyandregulation/people

For more information on human and digital rights, see btplc.com/digitalimpactandsustainability/humanrights/modernslavery

Additionally, non-financial matters have long been embedded in our business model as stakeholder outcomes on page 13. Non-financial performance indicators are linked to our ambitions and foundation measures as a sustainable and responsible business and can be seen in the following table.

Anti-corruption and bribery

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.

Building better digital lives



Our ambitions^a

By 2025, to reach 10m people in the UK with digital skills training^b

2018/19 performance	Status
N/A	Reporting to start in 2019/20
new ambition	
2017/18: N/A	

By 2020, to help 5m children to receive better teaching in computer skills

2018/19 performance	Status
2m	To be subsumed into above target in 2019/20
children reached	
2017/18: 1.6m	

Tackling climate change and environmental challenges



Our ambitions

By 2045, to become a net zero carbon emissions business^c

2018/19 performance	Status
298,461	> ongoing target
tonnes CO ₂ e	
2017/18: 377,073	

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

2018/19 performance	Status
25.7%	> ongoing target
reduction achieved	
2017/18: 7.1% (restated)	

By 2020, to enable customers to reduce their carbon emissions by at least three times the end-to-end carbon impact of our business

2018/19 performance	Status
2.6:1	> ongoing target
achieved	
2017/18: 2.4:1 (restated)	

By 2020, to buy 100% of our electricity worldwide from renewable sources, wherever markets allow

2018/19 performance	Status
87%	> ongoing target
bought from renewable sources	
2017/18: 80% (restated)	

^a As we direct our resources onto digital skills, we will no longer prioritise our fundraising ambition (by 2020, to use our skills and technology to help generate more than £1bn for good causes) but continue to report performance on page 25.

^b Revised target introduced to supersede our previous aim (by 2020, to help 10m people overcome social disadvantage through the benefits our products and services can bring).

^c Measured for scopes 1 and 2 greenhouse gases.

^d Measures for scopes 1 and 2 greenhouse gases, per unit of gross value added.

^e Senior management team: our top c600 leaders.



To find out more about our progress in these areas, see: bt.com/digitalimpactandsustainability

Investment in society



Our ambitions

Societal investment: to be more than 1% of adjusted profit before tax (PBT)

2018/19 performance

0.83%
of PBT invested

2017/18: 1.02%

1.02%

5-year average
2017/18: 1.06%

Status



ongoing target

Volunteering: by 2020, to inspire 66% (two-thirds) of our people to volunteer

2018/19 performance

26%
of BT people
volunteering

2017/18: 39%

Status

To be replaced
with new target
in 2019/20

Employees



Our ambitions

Employee engagement index: to maintain or improve our relationship with our employees

2018/19 performance

77%
favourable

2017/18: 74%

Status



target met

Gender: By end of 2020/21, we want 40% of our senior management team^e to be women

2018/19 performance

31%
Women on senior
management team

2017/18: N/A

Status



ongoing target

Sickness absence rate: to maintain or reduce percentage of calendar days lost to sickness

2018/19 performance

2.36%
calendar days
lost to sickness

2017/18: 2.30%

Status



target failed

Ethical perception: to maintain or improve our employees' perception of our ethical performance

2018/19 performance

86%
favourable

2017/18: 83%

Status



target met

Supply chain



Our ambitions

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

2018/19 performance

7.3%
reduction achieved

2017/18: 5.1%
(restated)

Status



ongoing target

Group performance

Introduction from our Chief Financial Officer



Performance

BT delivered solid results for the year, in line with our guidance.

Reported revenue fell by 1% to £23.4bn and underlying^a revenue was down 0.9% as growth in our Consumer business was more than offset by regulated price reductions in Openreach and declines in our enterprise businesses. Our reported profit before tax was up 2% to £2.7bn, reflecting one-off EE acquisition warranty costs in the prior year. Adjusted^b profit before tax was down 6% at £3.2bn reflecting the lower revenue partly offset by restructuring related cost savings and lower payments to telecommunications operators driven by Global Services strategy to de-emphasise low margin business.

Alternative performance measures

We assess the performance of the group using various alternative performance measures. These measures are not defined under IFRS so are termed 'non-GAAP' or 'alternative performance' measures. We present a reconciliation from these to the nearest prepared measure in line with IFRS on pages 185 to 187. The alternative performance measures we use may not be directly comparable with similarly-titled measures used by other companies.

IFRS 15

IFRS 15 'Revenue from Contracts with Customers' replaced IAS 18 'Revenue' with effect from 1 April 2018. We present current year results on the new IFRS 15 basis but prior year comparatives on an IAS 18 basis. For this reason, certain measures may not be directly comparable. See notes 1 and 2 for further information.

	Outlook provided in May 2018	Result	Performance against outlook	2019/20 outlook
Change in underlying ^a revenue	Down c2%	Down 0.9%	✓	
Change in adjusted ^b revenue				Down c2%
Adjusted ^b EBITDA	£7.3bn–£7.4bn	£7.4bn	✓	£7.2bn–£7.3bn
Capital expenditure ^c (excluding BDUK clawback)	c£3.7bn	£3.8bn	×	£3.7bn–£3.9bn
Normalised free cash flow ^d	£2.3bn–£2.5bn	£2.4bn	✓	£1.9bn–£2.1bn

^a Underlying revenue excludes specific items, foreign exchange movements, acquisitions and disposals.

^b Items presented as adjusted are stated before specific items. See page 185 for more information.

^c Additions to property, plant and equipment and intangible assets in the period

^d After net interest paid, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

Our results were in line with the guidance we set in May 2018 for adjusted^b EBITDA and normalised free cash flow^d. We exceeded our target for underlying^a revenue. Our capital expenditure (excluding BDUK clawback) was slightly ahead of our guidance due to acceleration of network investment.

Outlook for 2019/20

BT remains well positioned in a challenging market. We are taking decisive actions to further strengthen our competitive position. Specifically, we are increasing investment to: introduce new customer propositions; deliver fair, predictable and competitive pricing; accelerate migration of copper ADSL to superfast; drive the next step change in customer experience investment; ramp up FTTP to 4 million by March 2021; and accelerate 5G coverage. These actions will impact our outlook.

For 2019/20, we expect adjusted revenue to be down around 2%. This is mainly as a result of the challenging market conditions, regulatory pressure in both fixed and mobile markets, and the ongoing impact from our decision to de-emphasise lower margin products, particularly in our enterprise businesses.

Along with the flow through of lower revenue, we expect our opex investments to result in Group adjusted EBITDA for 2019/20 being in the range £7.2bn – £7.3bn. While we will sustain these opex investments into 2020/21, we continue to expect Group adjusted EBITDA for 2020/21 to be above that for 2019/20.

We are raising our reported capital expenditure guidance (excluding BDUK clawback) for 2019/20 to be in a range of £3.7bn – £3.9bn. We expect normalised free cash flow for 2019/20 to out-turn in the range £1.9bn – £2.1bn.

Dividend

We have delivered solid results for 2018/19 and are making positive progress against our core pillars; to improve customer experience, to create the best converged network; and to create a simplified, lean and agile business. This is being delivered in an increasingly competitive market environment with a number of regulatory and other headwinds. We remain confident in our ability to deliver the benefits we expect from the decisive actions we are taking to strengthen our competitive position.

As a result, the Board has decided to hold the dividend unchanged for 2018/19 at 15.4p per share, leading to a final dividend of 10.78p per share. The Board also expects to hold the dividend unchanged in respect of the 2019/20 financial year given our outlook for earnings and cash flow. In line with previous guidance, our interim dividend for 2019/20 will be fixed at 30% of this year's full year dividend.

The Board remains committed to our dividend policy, which is to maintain or grow the dividend each year whilst taking into consideration a number of factors including underlying medium term earnings expectations and levels of business reinvestment (which would include the consideration of accelerated FTTP investment).

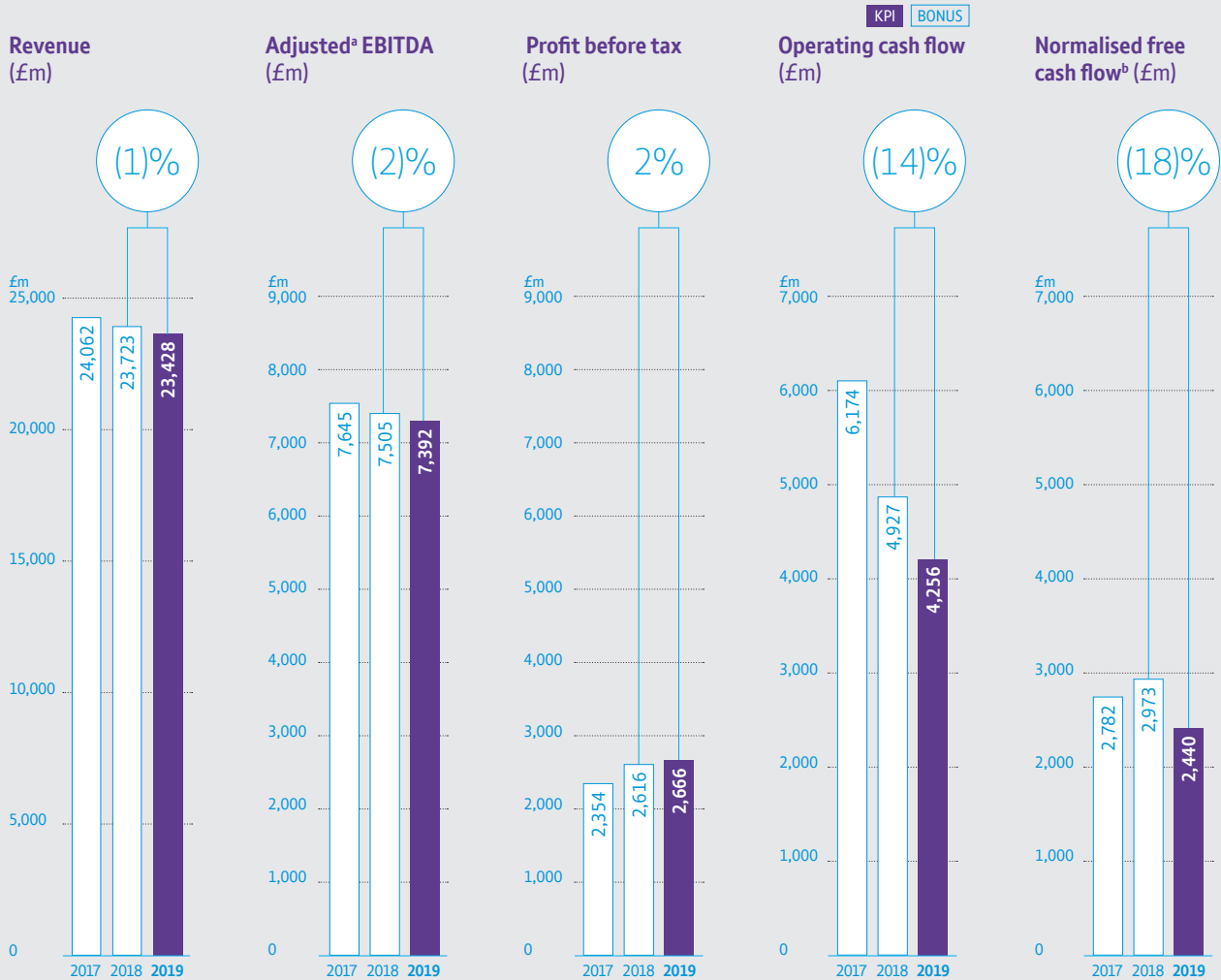
Subject to shareholder approval, the dividend will be paid on 9 September 2019 to shareholders on the register at 9 August 2019. The final dividend, amounting to approximately £1,069m (2018/19: £1,044m), will be recognised as an appropriation of the retained earnings in the quarter to 30 September 2019.

Simon Lowth
Chief Financial Officer
8 May 2019

Group performance

Summary financial performance for the year

Year ended 31 March



Proposed full year dividend

15.4p

2018: 15.4p

2017: 15.4p

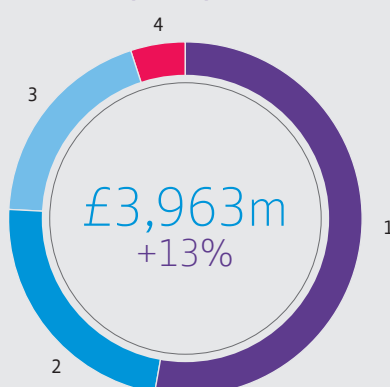
KPI

Earnings per share (p)

2019	21.8
2019	26.3
2018	20.5
2018	27.9
2017	19.2
2017	28.9

● Reported EPS
● Adjusted^a EPS

2018/19 Capital expenditure



1. Capacity and network investment 53%
2. Customer driven investment 23%
3. Systems and IT 19%
4. Non-network infrastructure 5%

Net debt (£m)

2019	11,035
2018	9,627
2017	8,932

^a Items presented as adjusted are stated before specific items. See page 185 for more information.

^b After net interest paid, before pension deficit payments, (including the cash tax benefit of deficit payments) and specific items.

Group performance continued

Summary financial performance for the year continued

Summarised income statement

Year ended 31 March	2019 £m	2018 £m	2017 £m
Revenue	23,428	23,723	24,062
Operating costs ^a	(16,461)	(16,828)	(17,323)
Depreciation and amortisation	(3,546)	(3,514)	(3,572)
Operating profit	3,421	3,381	3,167
Net finance expense	(756)	(764)	(804)
Associates and joint ventures	1	(1)	(9)
Profit before tax	2,666	2,616	2,354
Tax	(507)	(584)	(446)
Profit for the period	2,159	2,032	1,908

Revenue

Both reported and adjusted^b revenue fell by 1% as growth in our Consumer business, was more than offset by regulated price reductions in Openreach and declines in our enterprise businesses in particular in fixed voice and also reflecting our strategy to reduce low margin activity such as equipment sales. Excluding the negative impact of £35m from foreign exchange movements, underlying^c revenue fell 0.9% (2017/18: fell 1%), which exceeds our expectation of down around 2%.

You can find details of revenue by customer-facing unit on pages 40 to 41. Note 6 to the consolidated financial statements shows a full breakdown of reported revenue by all our major product and service categories.

Operating costs

Reported operating costs were down 2% and adjusted^b operating costs before depreciation and amortisation were down 1%. This was mainly driven by restructuring related cost savings and lower payments to telecommunications operators driven by Global Services strategy to de-emphasise low margin business, partly offset by higher costs of recruiting and training engineers to support Openreach's 'Fibre First' programme and help deliver improved customer service.

Our cost transformation programme remains on track. c4,000 roles were removed in the year, with the largest elements being in Global Services and our Corporate Units. Overall savings from the programme are currently an annualised benefit of £875m with an associated cost of £386m.

Note 7 to the consolidated financial statements shows a detailed breakdown of our operating costs.

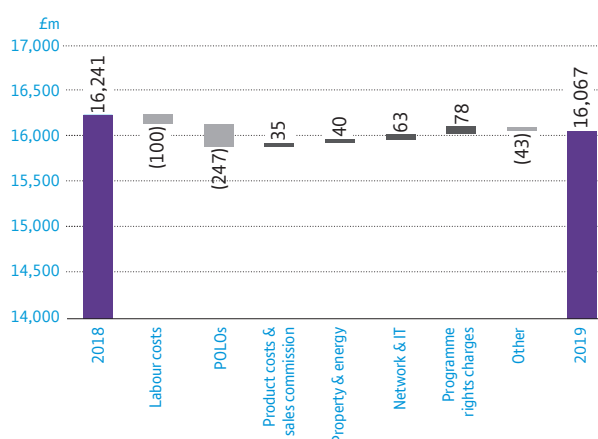
^a Excluding depreciation and amortisation.

^b Items presented as adjusted are stated before specific items. See page 185 for more information.

^c Underlying revenue excludes specific items, foreign exchange movements, acquisitions and disposals.

Adjusted^b operating costs before depreciation, amortisation and specific items

Year ended 31 March



Profit before tax

Our reported profit before tax was up 2% at £2,666m, reflecting one-off EE acquisition warranty costs in the prior year. Adjusted^b profit before tax was down 6% at £3,230m reflecting the lower revenue partly offset by the lower costs and higher net finance expense from increased net debt.

Adjusted^b EBITDA

Adjusted^b EBITDA was down 2% at £7,392m, in line with our expectations. This is primarily driven by revenue decline partly offset by the lower costs as described above. You can find details of adjusted^b EBITDA by customer-facing unit on pages 40 to 41.

Specific items

As we explain on page 185, we separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence (termed 'specific items'). Specific items are used to derive the adjusted results as presented in the consolidated income statement. Adjusted results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reported trading results of the group.

Specific items resulted in a net charge after tax of £452m (2017/18: £741m).

During the year we incurred restructuring costs of £386m (2017/18: £287m), mainly relating to leavers. The costs reflect projects which are part of our group-wide cost transformation programme, including remaining activities related to the EE integration.

We have recognised a net charge of £27m (2017/18: £49m) relating to the completion of the majority of deemed consent compensation payments, new regulatory matters arising across a range of issues, including price and service issues, the re-assessment of other regulatory risks and in light of historical regulatory decisions by Ofcom.

We have recognised a charge of £36m (2017/18: £28m) relating to the rationalisation of the Group's property portfolio, a charge of £26m (2017/18: £nil) in relation to the high court requirement to equalise pension benefits between men and women due to guaranteed minimum pension (GMP) and net interest expense on pensions of £139m (2017/18: £218m). This decreased from 2017/18 due to the decrease in the BT Pension Scheme deficit over the year to 31 March 2018. We also released £55m (2017/18: £nil) of provisions following the settlement of various matters in our Italian business.

The tax credit on specific items was £112m (2017/18: £87m).

Note 10 to the consolidated financial statements shows the details of all revenues and costs that we have treated as a specific item.

Taxation

Our effective tax rate was 19.0% (2017/18: 22.3%) on reported profit and 19.2% (2017/18: 19.5%) on profit before specific items. We paid income taxes globally of £431m (2017/18: £473m).

We paid UK corporation tax of £317m (2017/18: £374m). We benefited from £90m of EE's historical tax losses (2017/18: £111m) and £391m from tax deductions on employees' pension and share schemes (2017/18: £217m).

Our tax expense recognised in the income statement before specific items was £619m (2017/18: £671m). We also recognised a £343m tax credit (2017/18: £262m expense) in the statement of comprehensive income, mainly relating to our pension scheme.

We expect our sustainable income statement effective tax rate before specific items to be around the UK rate of corporation tax, as we do most of our business in the UK.

Note 11 to the consolidated financial statements shows further details of our tax expense, along with our key tax risks.

Earnings per share

Reported earnings per share was 21.8p, up 6%, while adjusted^a earnings per share decreased 6% to 26.3p.

Dividends

The Board is proposing a final dividend to shareholders of 10.78p bringing the full year dividend to 15.40p, unchanged from last year. It will be paid, subject to shareholder approval, on 9 September 2019 to shareholders on the register on 9 August 2019. The Board also expects to hold the dividend unchanged in respect of the 2019/20 financial year given our outlook for earnings and cash flow.

Note 13 to the consolidated financial statements shows details of the dividends we paid during the year.

Capital expenditure

In recent years we've prioritised capital expenditure to underpin our strategy, and to expand coverage and capacity whilst making our fixed and mobile networks faster and more resilient.

Capital expenditure was £3,963m (2017/18: £3,522m) including network investment of £2,083m, up 21%. This includes £213m grant funding deferral under the Broadband Delivery UK (BDUK) programme, of which £168m relates to a change in base-case assumption for customer take-up. Excluding the effect of the grant funding deferral, capital expenditure was £3,750m. The remaining increase in network investment reflects increased spend on our Fibre Cities programme, partially offset by lower mobile investment as the Emergency Services Network (ESN) passed the

peak deployment phase. Our BDUK Gainshare provision at the end of the year was £639m.

Other capital expenditure components were up 5% with £929m spent on customer driven investments, £747m on systems and IT, and £204m on non-network infrastructure.

Capital expenditure contracted but not yet spent was £1,432m at 31 March 2019 (2017/18: £993m).

Summarised cash flow statement

Year ended 31 March	2019 £m	2018 £m	2017 £m
Cash generated from operations	4,687	5,400	6,725
Tax paid	(431)	(473)	(551)
Net cash inflows from operating activities	4,256	4,927	6,174
Net purchase of property, plant and equipment and software	(3,637)	(3,341)	(3,119)
Free cash flow	619	1,586	3,055
Interest received	23	7	7
Interest paid	(531)	(555)	(629)
Add back pension deficit payments	2,024	872	274
Add back net cash flow from specific items	598	828	205
Add back net sale of non-current asset investments	1	19	(20)
Add back prepayments in respect of acquisition of spectrum licence	–	325	–
Remove refund on acquisition of spectrum licence	(21)	–	–
Remove cash tax benefit of pension deficit payments	(273)	(109)	(110)
Normalised free cash flow^b	2,440	2,973	2,782

Cash flow

We generated a net cash inflow from operating activities of £4,256m, down £671m, mainly driven by £2bn contributions to the BT Pension Scheme, offset by favourable working capital movements. In line with our outlook, normalised free cash flow^b was £2,440m, down £533m or 18%, driven by increased cash capital expenditure, decrease in EBITDA and higher tax payments.

Free cash flow, which includes specific item outflows of £598m (2017/18: £828m) and a £273m (2017/18: £109m) tax benefit from pension deficit payments, was £619m (2017/18: £1,586m). Last year also included payments of £325m for the acquisition of mobile spectrum. The spectrum auction bidding took place across the 2017/18 and 2018/19 financial years. Whilst £325m was on deposit with Ofcom at 31 March 2018, we went on to acquire spectrum for a total price of £304m and the excess deposit balance has since been refunded. We made pension deficit payments of £2,024m (2017/18: £872m) and paid dividends to our shareholders of £1,504m (2017/18: £1,523m).

The net cash cost of specific items of £598m (2017/18: £828m) includes restructuring payments of £372m (2017/18: £189m) and regulatory payments of £170m (2017/18: £267m). Last year also included payments of £225m relating to the settlement of warranty claims under the 2015 EE acquisition agreement.

^a Adjusted measures exclude specific items, as explained in the Additional Information on page 185.

^b After net interest paid, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

Group performance continued

Summary financial performance for the year continued

You can see a reconciliation to normalised free cash flow from the net cash inflow from operating activities, the most directly comparable IFRS measure, on page 186.

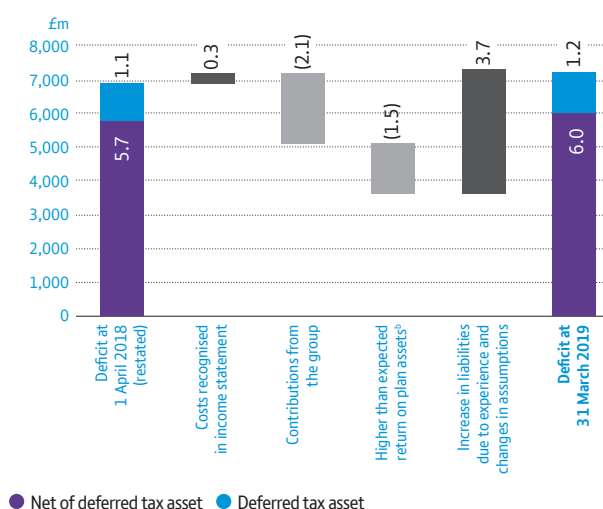
Summarised balance sheet

As at 31 March	2019 £m	2018 (Restated) £m	Movement £m
Intangible assets	14,385	14,447	(62)
Property, plant and equipment	17,835	17,000	835
Derivative financial instruments	1,592	1,509	83
Cash and cash equivalents	1,666	528	1,138
Investments	3,268	3,075	193
Trade and other receivables	3,667	4,331	(664)
Contract assets	1,602	–	1,602
Deferred tax assets	1,347	1,326	21
Other current and non-current assets	925	626	299
Total assets	46,287	42,842	3,445
Loans and other borrowings	16,876	14,275	2,601
Derivative financial instruments	940	837	103
Trade and other payables	7,269	8,494	(1,225)
Contract liabilities	1,425	–	1,425
Provisions	1,006	1,055	(49)
Retirement benefit obligations	7,182	6,847	335
Deferred tax liabilities	1,407	1,340	67
Other current and non-current liabilities	15	83	(68)
Total liabilities	36,120	32,931	3,189
Total equity	10,167	9,911	256

Pensions

The accounting deficit, net of tax, increased during the year from £5.7bn^a to £6.0bn, primarily driven by an increase in the liabilities due to a fall in the real discount rate reflecting market movements; partly offset by deficit contributions from the group and positive asset returns. The movements in the deficit for the group's defined benefit plans are shown below:

Key movements in IAS 19 deficit



Note 20 to the consolidated financial statements gives more information on our pension arrangements.

Net debt^c

Net debt^c increased by £1,408m to £11,035m, mainly reflecting the £2bn of contributions to the BT Pension Scheme in June 2018. We issued £2bn of bonds to the BT Pension Scheme in June 2018.

We also issued bonds of £2.0bn in September and December 2018 and repaid bonds of £1.4bn maturing in August 2018 and February and March 2019.

Gross debt translated at swap rates and excluding fair value adjustments at 31 March 2019 was £15,912m. This comprises term debt of £15,001m, finance leases of £200m and other loans of £711m.

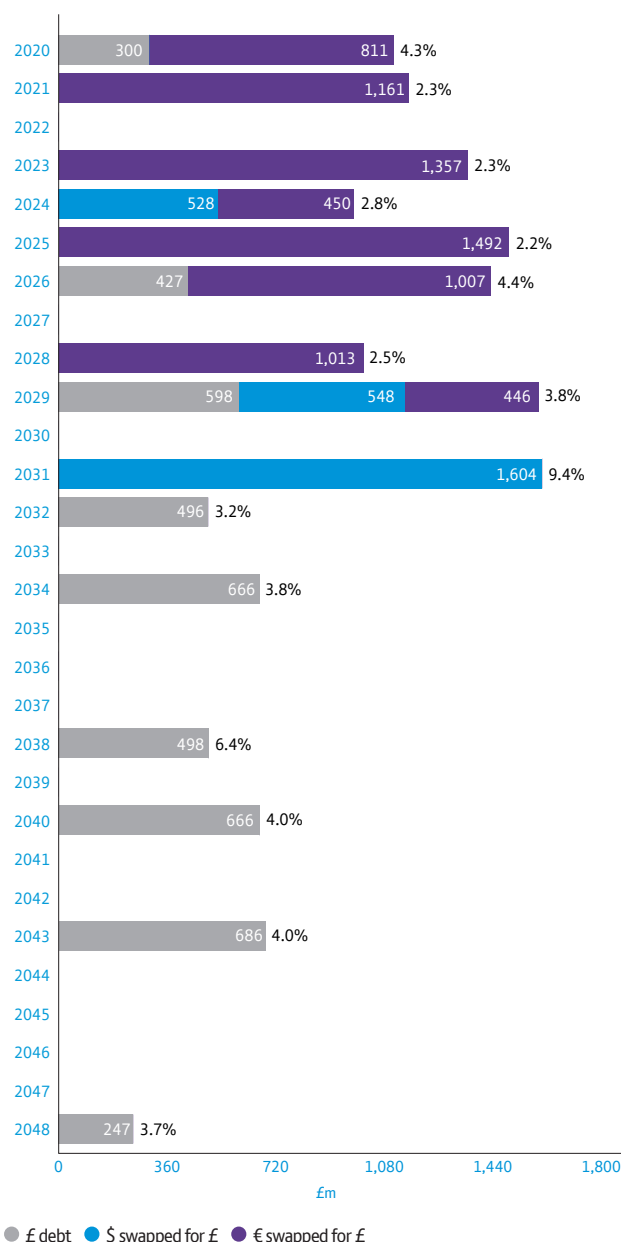
^a Certain results have been restated to reflect the update to the calculation of our IAS 19 accounting valuation of retirement benefit obligations. See note 2 to the consolidated financial statements.

^b The actual investment return in the year to 31 March 2019 of around 6% was greater than our discount rate assumption at 31 March 2018 of 2.65%.

^c Loans and other borrowings (both current and non-current), less current asset investments and cash and cash equivalents. Currency denominated balances within net debt are translated to sterling at swapped rates where hedged. Fair value adjustments and accrued interest applied to reflect the effective interest method are removed. Please refer to note 25 for reconciliation from nearest IFRS measure.

The graph below shows our debt maturity profile:

Debt maturity profile



Note 25 to the consolidated financial statements gives more information on our debt arrangements.

Contractual obligations and commitments

We've shown in the table below our principal undiscounted contractual financial obligations and commitments at 31 March 2019.

As at 31 March 2019	Total £m	Less than 1 year £m	Between 1 and 3 years £m	Between 3 and 5 years £m	More than 5 years £m
Loans and other borrowings ^a	16,624	2,084	1,289	2,396	10,855
Finance lease obligations	202	16	35	31	120
Operating lease obligations	6,619	755	1,240	1,067	3,557
Capital commitments	1,432	1,129	162	141	–
Other commitments	253	253	–	–	–
Programme rights commitments	2,113	843	1,262	8	–
Pension deficit obligations	10,351	1,276	1,817	1,816	5,442
Total	37,594	6,356	5,805	5,459	19,974

^a Excludes fair value adjustments.

We have unused committed borrowing facilities totalling £2.1bn. We expect that these resources, combined with the future cash we generate, will allow us to settle our obligations as they are due.

Notes 20, 25 and 30 to the consolidated financial statements gives further information on these items.

Share buyback

We spent £9m (2017/18: £221m) on our share buyback programme. We received proceeds of £5m (2017/18: £53m) from people exercising their share options.

Group performance continued

Our customer-facing units

Consumer

Adjusted^a revenue
£10,695m

Adjusted^a operating profit
£1,510m

Year to 31 March	2019 (IFRS 15) £m	2018 (IAS 18) £m	Change £m	%
Adjusted ^a revenue	10,695	10,360	335	3
Adjusted ^a operating costs	8,161	7,984	177	2
Adjusted ^a EBITDA	2,534	2,376	158	7
Depreciation & amortisation	1,024	992	32	3
Adjusted ^a operating profit	1,510	1,384	126	9
Capital expenditure	994	919	75	8
Normalised free cash flow ^b	1,323	1,389	(66)	(5)

We continue to experience challenging trends in both the high-end smartphone market and in the broadband market. However, with leading mobile and fixed networks, improving customer experience, three strong brands and further enhancements to BT Plus, with 5G coming imminently, we are well placed for the future.

Adjusted^a revenue growth of 3% for the year was driven by the continued increase in handset costs for customers, growth in the SIM-only base across all brands and the impact of price increases, partially offset by solus voice price reductions.

Adjusted^a EBITDA grew 7% for the year as the revenue growth was partially offset by increased trading costs.

Capital expenditure growth of 8% was driven by increased network spend as preparations were made for the EE 5G launch in 2019. Normalised free cash flow^b was £1,323m, down 5% on last year as the increase in EBITDA was offset by the settlement at the start of the year of the Phones4U dispute relating to the retail trading agreement, and increased capital expenditure.

Mobile churn^c was stable at 1.2% for the year, whilst fixed churn^c was up from 1.3% to 1.4% reflecting the impact of price increases in the year.

Enterprise^d

Adjusted^a revenue
£6,292m

Adjusted^a operating profit
£1,356m

Year to 31 March	2019 (IFRS 15) £m	2018 (IAS 18) £m	Change £m	%
Adjusted ^a revenue	6,292	6,647	(355)	(5)
Adjusted ^a operating costs	4,302	4,570	(268)	(6)
Adjusted ^a EBITDA	1,990	2,077	(87)	(4)
Depreciation & amortisation	634	635	(1)	–
Adjusted ^a operating profit	1,356	1,442	(86)	(6)
Capital expenditure	501	492	9	2
Normalised free cash flow ^b	1,483	1,587	(104)	(7)

The UK and Ireland business-to-business market remains challenging. The main headwind we face is the decline in traditional calls and lines where we have a relatively high market share. The IP Voice market is significantly more fragmented, with a large number of providers, and we are focused on expanding our share in this growing market. The mobile market remains competitive and we continue to see pressure on pricing. While overall growth in the broadband market is limited, we are seeing good demand for our premium products such as fibre and 4G Assure. Newer areas such as the Internet of Things, Cloud, SDWAN and security remain good opportunities for us over the longer term.

Adjusted^a revenue decreased 5% for the year mainly due to the ongoing decline of fixed voice revenue. We continue to see a steeper than expected reduction in calls per fixed line as usage moves to mobile and IP. We continue to sell less low margin equipment and also experienced ongoing declines in some of our other legacy products such as private circuits. This was partially offset by growth in IP, Mobile and Networking. We're also continuing to see encouraging growth in messaging volumes in Ventures.

Adjusted^a operating costs reduced 6%, helped by labour cost efficiencies from our cost transformation programmes. Adjusted^a EBITDA decreased 4%, with our lower cost base more than offset by the reduction in revenue.

Capital expenditure increased 2% and normalised free cash flow^b decreased 7%, reflecting the reduction in EBITDA and the higher capital expenditure.

The Retail order intake decreased 15% to £2.9bn for the year due to the signing of a large contract in Republic of Ireland in the prior year. The Wholesale order intake declined 22% to £1.0bn after 2017/18 benefitted from a number of large deals, including the timing of some contract renewals.

^a Adjusted measures exclude specific items, as explained in the Additional Information on page 185.

^b Free cash flow after net interest paid, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

^c Number of customers who disconnect from the network, voluntarily or involuntarily, during the period, divided by the average number of customers during the period, presented as a monthly figure.

^d Enterprise comparatives have been re-presented to reflect the bringing together of our Business and Public Sector and Wholesale and Ventures units into a single Enterprise unit, as well as the transfer of Northern Ireland Networks from Enterprise to Openreach.

Global Services

Adjusted^a revenue
£4,735mAdjusted^a operating profit
£135m

Year to 31 March	2019 (IFRS 15) £m	2018 (IAS 18) £m	Change £m	%
Adjusted ^a revenue	4,735	5,013	(278)	(6)
Adjusted ^a operating costs	4,230	4,579	(349)	(8)
Adjusted ^a EBITDA	505	434	71	16
Depreciation & amortisation	370	424	(54)	(13)
Adjusted ^a operating profit	135	10	125	1,250
Capital expenditure	245	278	(33)	(12)
Normalised free cash flow ^b	296	118	178	151

Global Services operates in a global market that continues to experience high levels of change driven by both rapid technology innovation and a dynamic competitive landscape. Customers' demands continue to evolve towards more flexible, on-demand models and new cloud-based and software-defined networking solutions. We continue to execute our Digital Global Services transformation programme to focus our business, standardise our operations, transform our underlying infrastructure, and provide innovative solutions to address the changing demands of our customers. We are focused on around 800 multinational companies and financial institutions served by three global industry verticals.

Adjusted^a revenue for the year was down 6%, in line with our strategy to de-emphasise low margin business and including the impact of divestments. This includes a £35m negative impact from foreign exchange movements, primarily reflecting lower IP Exchange volumes and equipment sales.

Adjusted^a operating costs for the year were down 8% mainly reflecting the decline in IP Exchange volumes and equipment sales and lower labour costs from our ongoing restructuring programme. Adjusted^a EBITDA for the year was up £71m reflecting the reduction in operating costs and certain one-offs, more than offsetting the impact of lower revenue.

Depreciation and amortisation was down 13% for the year due to closure of certain projects in the prior year.

Capital expenditure was down 12% for the year reflecting ongoing rationalisation and our strategy to become a more asset light business. Normalised free cash flow^b for the year improved by 151% to £296m, reflecting higher EBITDA, lower capital expenditure and improved working capital.

Total order intake was £3.3bn, down 15% year on year continuing to reflect a shift in customer behaviour, including shorter contract lengths and greater prevalence of usage-based terms.

Openreach^cAdjusted^a revenue
£5,075mAdjusted^a operating profit
£955m

Year to 31 March	2019 (IFRS 15) £m	2018 (IAS 18) £m	Change £m	%
Adjusted ^a revenue	5,075	5,278	(203)	(4)
Adjusted ^a operating costs	2,652	2,663	(11)	–
Adjusted ^a EBITDA	2,423	2,615	(192)	(7)
Depreciation & amortisation	1,468	1,401	67	5
Adjusted ^a operating profit	955	1,214	(259)	(21)
Capital expenditure	2,081	1,699	382	22
Normalised free cash flow ^b	685	1,100	(415)	(38)

Openreach has a UK-wide presence which is overlapped by our competitors in around half the country. This overlap is expected to grow as alternative network providers build-out new fibre footprint. Our volume discount deal, signed with the majority of our major communications provider customers, has led to another record quarter for fibre sales. We are also rapidly expanding our fibre-to-the-premises network to provide the next generation of services for our customers. We have experienced strong demand from businesses for Ethernet circuits for the second consecutive quarter.

Adjusted^a revenue decline of 4% for the year was driven by regulated price reductions predominantly on FTTC and Ethernet products, non-regulated price reductions (mainly driven by communications providers signing up for fibre volume discounts), a small decline in our physical line base and a reclassification of costs to revenue. This was partly offset by 25% growth in our fibre rental base, a 9% increase in our Ethernet rental base and the impact of adopting IFRS 15.

Adjusted^a operating costs were broadly flat, with higher costs from recruiting and training engineers to support our 'Fibre First' programme and help improve customer experience, as well as pay inflation and business rates, offset by efficiency savings and a reclassification of costs to revenue. Adjusted^a EBITDA was down 7% for the year.

Capital expenditure was £2.1bn, up 22%, driven by investment in our FTTP and Gfast network build and higher year-on-year BDUK net grant funding deferrals, partly offset by efficiency savings.

Normalised free cash flow^b was down 38% due to the EBITDA decline, higher underlying capital expenditure (excluding BDUK grant funding deferrals) and timing of customer receipts.

^a Adjusted measures exclude specific items, as explained in the Additional Information on page 185.

^b Free cash flow after net interest paid, before pension deficit payments (including the cash tax benefit of pension deficit payments) and specific items.

^c Openreach comparatives have been re-presented to reflect the transfer of Northern Ireland Networks from Enterprise to Openreach.

A message from the Openreach Chairman



Openreach has had a solid year of progress. We improved our customer service performance, confirmed our status as a legally separate entity, and accelerated our full fibre build programme through major investments in our people and our network.

Investing in our service and people

Our network is more than 173 million kilometres long and passes nearly 32 million homes and businesses. With so many customers, improving the service we offer will always be our top priority.

I am encouraged by the progress we're making in reducing faults, keeping missed appointments down and fixing issues much faster. Last year we cut the total number of faults on our network by 4.4% – saving some 194,000 engineer visits. This is helping us continue to meet or exceed all of Ofcom's 42 Minimum Service Level targets on copper and broadband services.

On the dedicated circuits we provide for businesses, we delivered another strong year of Ethernet orders and we are also fixing 94% of faults within just five hours.

We also opened more direct communication with end customers, via our website and social media, to tackle the frustration some face in contacting us.

But we know we need to do better, because what we do is so important to the UK's citizens and businesses.

We're continuing to invest heavily in our people, training and systems. This year we hired 3,500 more trainee engineers to help us sustain improvements and we will hire a further 2,700 next year. It is the biggest recruitment drive in our history. To consolidate it we have introduced new training and career opportunities to help us develop and keep hold of the very best engineering talent.

We have now opened four fibre training centres, including Peterborough, Livingston and Yarnfield. A further eight similar centres are being built or upgraded across the country. This 100,000 square-foot facility includes an 'Open Street' – a mock-up of a typical suburban street, to help our engineers develop their skills in an authentic and immersive environment.

Fulfilling our commitments to Ofcom

Following Ofcom's Digital Communications Review of 2015, we have implemented a series of changes to our governance and operations to give Openreach more control of its strategy, investments and plans within a strategic and financial framework defined by BT.

The major milestone this year concerned our people. On 1 October 2018, more than 31,000 people transferred from BT into the new Openreach Limited – a considerable step that we believe is the largest ever one-off people transfer in UK corporate history. We also created Openreach Northern Ireland to complete the formal implementation of our commitments to Ofcom under the Review.

Meanwhile, our rebranding programme continues ahead of schedule. Almost 17,000 vehicles now feature the new Openreach brand, and we have updated all our external websites, templates and systems. Out of 32 Openreach buildings, we have just seven more to rebrand.

Ofcom recognised the progress we have made across the board in its most recent implementation report.

We have completed most of what I call the 'hard wiring' necessary to create the more independent Openreach. The 'soft wiring', encompassing things such as culture and behaviour, always takes longer to embed. I am, however, very encouraged at the real progress that BT and Openreach have made in this regard. There is a real consensus throughout both organisations that only by embedding this new way of working will we establish an enduring legacy. It takes time but we are on the right path.



Highlights

173m

Our network is more than
173 million kilometres long

94%

We are fixing 94% of network
faults within five hours

3,500

In 2018 we hired
3,500 trainee engineers

26

We are progressing FTTP build
in 26 locations

27.5m

We have built our superfast
network to almost 27.5 million
premises across the UK

'Fibre First'

FTTP is a vital technology for the UK's future. It is fast, reliable and future-proof. We believe it is key to the future success of digital services in the UK and we believe Openreach has to underpin this. That is why our strategy is 'Fibre First'.

Last year we accelerated our fibre build programme and doubled our FTTP footprint. The new network is now available to more than 1.2 million homes and businesses. As a result, we are increasing our aim of reaching three million homes to four million by March 2021. We are progressing FTTP build in 26 locations and in April announced a further 12 locations to benefit from FTTP availability in the next 12 months, bringing the total to 38. Around a third of our FTTP footprint today is in rural areas, and our continuing BDUK work is almost exclusively focused on FTTP.

We want to go further – to 15 million by the mid-2020s – if the right conditions to invest are in place. To help create those conditions, we are doing whatever we can to reduce the cost of rolling out fibre – including tools and techniques such as drones, micro-ducting, ribbonised cables and 'plug-and-play' connections.

We're also working with the Government and Ofcom to deliver the enablers we need to go even further and faster. One of the biggest of these is business rates – specifically the Cumulo tax on fibre infrastructure. It is a barrier to investment for any operator wanting to build more FTTP, and we believe that action on this by the Government would boost investment across the sector.

Another hurdle is adoption. Having built our superfast network to almost 27.5 million premises across the UK, there are still more than 15.5 million homes and businesses who have not signed up to our superfast broadband.

That is why last year we took the unprecedented step of offering volume-related discounts to encourage more communications providers to upgrade their customers. The move is already having a positive effect on take-up.

We also continue to extend fibre into rural areas – via publicly-subsidised schemes and direct partnerships with local communities. We recently signed our 850th Community Fibre Partnership contract. Overall the scheme has helped us upgrade almost 98,000 homes and businesses in recent years.

Looking to the future

We are committed to openness and transparency, so we are now publishing a wide range of information about our 'Fibre First' programme on our website, including maps and a list of locations we will be building in over the next 12 months.

We also publish details of the specific exchanges where we've installed, are currently installing, or will soon be installing (within the next three months) FTTP. We will update this information every three months.

These are exciting times at Openreach. We want to get decent, reliable and future-proof broadband to as many people as we can, as fast as we can. I look forward to seeing that continue to materialise over the coming year.

Mike McTighe

Chairman, Openreach

8 May 2019

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 control but others we can't, in which case we plan for the consequences. Many of our risks are similar to those faced by similar businesses.

Principal risks and uncertainties

The principal risks and uncertainties that affect us could have an impact on our business, brand, customers, assets, revenue, profits, liquidity or capital resources.

Our Enterprise Risk Management framework gives reasonable (but cannot give absolute) assurance that we've identified and are addressing our biggest risks. But there may be some risks that are either currently unknown, or currently seen as less important but with the potential to become more important in the future.

Events outside BT present both risks and opportunities. We focus our efforts on predicting and managing 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 has developed contingency plans covering a range of scenarios, including the possibility that the UK leaves the EU without a deal. The programme continues to follow developments closely and reports to a steering group chaired by our chief financial officer.

In the section below, we explain what we're doing to help prevent our main risks from materialising, or to limit their impact if they do. Our principal risks and uncertainties should be considered alongside our risk management process, the forward-looking statements in this document and the associated cautionary statement (see page 190).

Enterprise Risk Management framework: responsibilities and governance

Customer-facing and technology unit audit and risk committees

Customer-facing and technology unit leadership teams

Our units follow our Enterprise Risk Management framework to manage risks. That means identifying, responding to, monitoring and assuring the key risks affecting their business. They record the risks for their leadership teams to review. Audit and risk committees in our customer-facing and technology units, plus corporate functions, oversee this process.

Group Risk Panel

The Group Risk Panel supports the Board and the *Executive Committee*. Every three months it reviews the Group Risk Register, which describes our most significant risks and how they are being managed, considers 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* owns and oversees the risk management process. Significant risks are reported and monitored through the Group Risk Register. The *Executive Committee* assigns a senior owner to take charge of monitoring and managing each risk. It monitors risks through detailed reviews of individual risks as well as six-monthly reviews of the Group Risk Register.

Audit & Risk Committee

Board

The Board has overall responsibility for making sure we manage risks appropriately. It regularly reviews, either directly or through the *Audit & Risk Committee*, how we're doing across the group, in our customer-facing and technology units and corporate functions.

How we manage risk

Managing risk is essential if we're to meet our objectives, build shareholder value, become more resilient, maintain our licence to operate and promote our stakeholders' interests. To help us, we've developed a group-wide risk management process with four stages:



Changes over the year

In 2017/18 we improved the way we manage risk through: revisiting our three lines of defence model and how we apply it to our key areas of risk; reviewing our risk management arrangements against some external benchmarks; and continuing our cycle of war gaming. Specific improvements to our risk and assurance activities in 2018/19 included:

Integrated approach

This year we brought together, under new management, our risk management, compliance, internal audit and some second line assurance functions to manage risk and provide assurance in a more integrated and simplified way. To extend and sustain the benefits of this across the organisation, we've launched a new programme called 'One BT Integrity and Compliance' – see page 70 for more detail.

Supplier failure

We've been reviewing the lessons we learned following the collapse of a major supplier during the year, and have made a number of improvements to how we would pre-empt and respond to a similar event in the future.

Major contracts

We've been reviewing responsibilities across the three lines of defence for the management and governance of our major contracts, and have strengthened our assurance reporting over key contract controls.

Our principal risks and uncertainties

Strategic risks

Link to strategy

- ① Best converged network
- ② Differentiated customer experience
- ③ Simplified, lean and agile business

Trend versus prior year indicates our perception of pre-mitigation risk

- ⬆ Increasing/worsening
- ⬇ Lessening/improving
- ➡ At a similar level

Link to business model

- Ⓕ Financial capital
- Ⓖ Human capital
- Ⓜ Manufactured capital
- Ⓘ Intellectual capital
- Ⓢ Social capital
- Ⓝ Natural capital

Competition and technology changes

Trend



- Our strategy and business model could be disrupted by technology change and/or intensifying competition from established players and new entrants into our markets

Link to business model

Ⓕ Ⓘ

Link to strategy

① ② ③

Potential impact

- Loss of market share, lower revenues, and profit.
- Products becoming obsolete faster.
- A need for us to invest more.

Developments in 2018/19

- The UK telecom market struggled to grow.
- Competition increased in the UK as many of our competitors tried to take more market share.
- Some alternative network providers announced fibre network investment plans in the UK.
- UK sports rights competition increased, with Amazon winning a three-year broadcast package for the Premier League, starting in 2019.
- Competitors are developing their future 5G propositions.

Examples of how we mitigate

- We are:
 - delivering a differentiated customer experience to retain existing customers and attract new customers
 - investing in building the best converged network to provide our customers with products and services that stand out in the marketplace
 - simplifying our business and processes to reduce our cost base, which is an essential enabler to deliver a differentiated customer experience and build the best converged network.
- We're keeping a close eye on and responding to technology developments and competitor activity that could have an impact on us achieving our goals.

Communications industry regulation

Trend



- Risk of unfavourable changes to the way we operate and compete where, for example, Ofcom raises competition concerns around market power
- Also the risk of unfavourable regulatory changes outside the UK to licensing and terms on which we access incumbent operators' networks

Link to business model

Ⓕ Ⓜ

Link to strategy

① ③

Potential impact

- Reduced prices on products.
- Increased costs of doing business due to the service standards we are required to meet.
- Limitations in the scope and competitiveness of the services we can provide.

Developments in 2018/19

- Ofcom published Digital Communications Review Implementation Reports in June and November 2018 reviewing BT's and Openreach's adoption of the Commitments and Governance Protocol.
- The Department for Digital, Culture, Media and Sport published its Future Telecoms Infrastructure Review.
- Ofcom continued its cycle of market reviews, including consultations on the business connectivity and physical infrastructure markets, and on its move to more holistic regulation of access across business and residential markets.
- Consumer issues such as charges once a customer's minimum contract term expires were part of a super-complaint by Citizens Advice to the Competition and Markets Authority (across telecommunications and financial services sectors) and has been referred back to Ofcom.

Examples of how we mitigate

- Our regulatory and policy specialists, legal experts, compliance and operational teams guard against potential risks and look for timely opportunities to support the shaping of regulation. This is underpinned by our regulatory strategy.
- We push for clear, predictable and proportionate regulation, submitting evidence and analysis into market reviews, charge controls, disputes and investigations.
- Regular engagement with regulators, government, consumer organisations and other key stakeholders helps us build trust and understand their outlook.
- We can ask for judicial reviews of regulatory decisions and appeal to the Competition Appeal Tribunal, dispute things or complain against outcomes that we feel aren't in the best interests of the market or our customers.

Political risk

Trend



- Our future strategy and investor confidence could be undermined as a result of an uncertain or adversarial political environment
- Our operations and revenues could be disrupted as a result of geopolitical risk, in particular outside the UK

Link to business model

[F](#) [H](#) [S](#)

Link to strategy

[1](#) [2](#)

Potential impact

- Direct consequences include impact of movement in foreign exchange rates, lower consumer and business confidence, cost and availability of capital, interest rates and changes in tax regimes.
- Political risk can also impact upon some of our other principal risks, in particular regulation.
- Outside the UK political risk impacts us through changes in regulation and competition. It could also result in social unrest or a breakdown in the rule of law, which could lead to a threat to our people and assets.

Developments in 2018/19

- There were continued negotiations between the EU and UK to agree Brexit terms – against a backdrop of domestic political instability.
- There was high political interest and policy focus around communications – particularly fibre broadband and 5G. The Government's Future Telecoms Infrastructure Review concluded.
- There was more political focus on issues like consumer pricing and contracts, and security and competition in the communications supply chain.

Examples of how we mitigate

- We have strong relationships with the UK Government, key departments, MPs, peers, the media and business and consumer bodies. We also engage often and closely with governments and politicians in the EU and our key global markets.
- We inform public debate around the communications market with campaigns explaining our role within it.
- In the build up to the UK's scheduled exit from the EU we've continued our contingency planning to make sure customers keep getting our services. This includes: making sure we have enough stock to mitigate any short-term disruption; making crisis management arrangements in the immediate aftermath of a 'hard' Brexit; reviewing how we'd keep serving EU customers; assessing what systems we need to change; and making sure our key suppliers are similarly prepared for any eventuality.
- Outside the UK our public affairs and regulatory teams support governments and regulators to establish and maintain open and fair regulation of markets.
- Our security and business continuity teams focus on protecting our people and assets against the consequences of geopolitical risks.

Financial risks

Pensions risk

Trend



- Our defined benefit (DB) pension schemes, in particular the BT Pension Scheme (BTPS), could become more of a financial burden as a result of future low investment returns, high inflation, longer life expectancy and/or regulatory changes

Link to business model

[F](#) [H](#) [S](#)

Link to strategy

[3](#)

Potential impact

- The next BTPS valuation is due at 30 June 2020. A rise in the deficit might affect the size of payments we have to make into the scheme.
- A rise in the deficit could also negatively affect our share price or credit rating, making it harder and more expensive to access funding.

Developments in 2018/19

- The actuarial valuation of the BTPS was agreed in May 2018. This led to a £2bn contribution in June 2018, funded by proceeds from issuing long-term bonds to the BTPS.
- We reviewed pension arrangements for our UK people, closing Sections B and C of the BTPS to future benefit accrual on 30 June 2018 (representing more than 99% of active members at the time). This has largely removed the build-up of additional future liabilities in the BTPS.

Examples of how we mitigate

- We and the BTPS Trustee regularly review the scheme's funding position and investment performance. We also consider associated risks and possible mitigations.
- Our agreement with the BTPS Trustee following the last funding valuation helped reduce investment risk and allows for a gradual move to a low-risk investment approach over time. Our strategy also aims to mitigate the impact of liability increases (for example by investing in assets that will go up in value if future inflation expectations rise).

Our principal risks and uncertainties continued

Financial risks continued

Financial risk		Trend	
<ul style="list-style-type: none"> Like many other major international businesses, we're exposed to financial risks such as market risk (including interest rate and foreign exchange risks), credit risk, liquidity risk and tax risks 		Link to business model (F) (S)	Link to strategy (2) (3)
Potential impact <ul style="list-style-type: none"> Interest and foreign exchange rate movements could negatively affect our profitability, cash flow and balance sheets (see note 2.7 to the consolidated financial statements). If credit risks materialise they could negatively impact our liquidity and profitability. If we don't stick to tax rules we could face financial penalties and reputational damage. 		Examples of how we mitigate <ul style="list-style-type: none"> We have a centralised treasury function whose job is to manage liquidity and funding requirements as well as our exposure to financial and market risks. Our governance framework is at the heart of how we mitigate tax risk. This is set and agreed by the Board. We always aim to pay tax in line with the laws of the countries where we do business. We want open, constructive relationships with tax authorities worldwide, getting reputable independent advice where we need it. 	
Developments in 2018/19 <ul style="list-style-type: none"> Earlier in the year S&P and Fitch downgraded our credit rating, due to concerns over the effect that competing pressures, including those related to our pension and our network investments, may have on our cash flows. The three main agencies now rate us Baa2/BBB with stable outlook. As the external tax environment changes, we have to make more judgements to forecast the future tax consequences of business decisions. 			

Compliance risks

Significant financial control failure		Trend	
<ul style="list-style-type: none"> Financial controls may not prevent or detect fraud, financial misstatement or other financial loss 		Link to business model (F)	Link to strategy (1) (3)
Potential impact <ul style="list-style-type: none"> Failures in our financial control framework could result in financial misstatement, financial loss including a failure to prevent fraud, or key decisions being taken based on incorrect information. 		Examples of how we mitigate <ul style="list-style-type: none"> We train our people (including those in high risk roles) to build awareness and understanding of controls – including our three lines of defence, fraud awareness and balance sheet reconciliation best practice courses. We have implemented a financial controls framework with appropriate policies, processes, checks and balances – including quarterly certifications over key controls by senior leaders. We are progressing a programme to strengthen our financial control framework, supported by a new Group Financial Controls and Assurance team. 	
Developments in 2018/19 <ul style="list-style-type: none"> KPMG have become our new external auditors. We have brought together, under new management, our risk management, compliance, internal audit and some second line assurance functions. We commenced a significant Sarbanes-Oxley control enhancement programme which identified two particular areas requiring remediation: IT general controls and risk assessment, in particular, documentation of information used in controls. Although improvements have been made, remediation and testing of all IT general controls and risk assessment remediation plans was not complete at 31 March 2019 and will be a significant focus for 2019/20. Unremediated deficiencies in the two areas were concluded to be a 'material weakness' as at 31 March 2019 as defined by the Sarbanes-Oxley Act. 			

Privacy, data protection and data governance

Trend



- We might fail to ensure that our customers' and employees' data are secure and protected in compliance with data privacy laws, against internal and external threats

Link to business model

(F) (S)

Link to strategy

(1)

Potential impact

- A breach of data protection regulation could result in enforcement action, significant fines, class action, prison sentences and the regulator telling us to stop processing the data.
- This could also result in potential reputational damage, stopped operations and financial loss from fines and customers leaving.

Developments in 2018/19

- EU General Data Protection Regulation (EU GDPR) came into force on 25 May 2018. Our preparations included setting out in our privacy policies what personal data we collect, what we do with it and why we process it; reviewing our contractual data obligations with suppliers; and increasing our resources to deal with data subject access requests.
- A number of major corporations have fallen victim to significant data breaches this year.

Examples of how we mitigate

- We perform compliance reviews of our activities involving personal data across the business. Our focus is on protecting systems, enhancing our operational processes and training our people to protect the personal data they handle.
- We provide our people with tools to make risk-based decisions in their day-to-day activities (like using Privacy Impact Assessments when they develop new products or services).
- We conduct due diligence activities on third parties' data handling and security arrangements.
- We have Binding Corporate Rules agreed with the regulator to guide and support our business operations.

Health, safety and wellbeing

Trend



- We might fail to ensure the health, safety and wellbeing of our people or members of the public, in breach of health and safety laws and regulations

Link to business model

(F) (H) (N) (S)

Link to strategy

(1)

Potential impact

- Health and safety failures could mean injury to our people or members of the public, financial penalties, hindered or stopped operations and reputational damage.

Developments in 2018/19

- Changes in technology and working processes helped reduce physical risks to our people.
- Changes in our workforce mean we have more new recruits and they need more safeguards while they gain experience.
- We're managing the psychological impact of the pace and scale of our transformation on our people.
- We've appointed a new director of health, safety and wellbeing.

Examples of how we mitigate

- We implement a company-wide and Board-endorsed health, safety and wellbeing strategy.
- All our people do training in basic health and safety, overseen by their managers.
- We monitor compliance through annual licensing, refresher training, competency assessments and accreditation for higher-risk groups.
- We have a new IT system to help us better capture and share information on health and safety incidents.
- We run wellbeing campaigns for our people.

Ethical culture

Trend



- Our controls and procedures could fail to detect unethical or inappropriate behaviour by our people or associates

Link to business model

(F) (H) (S)

Link to strategy

(1) (3)

Potential impact

- Unethical or inappropriate behaviour could result in fraud or a breach of regulation or legislation.
- That in turn could expose BT to significant penalties, criminal prosecution and damage to our brand and reputation.

Developments in 2018/19

- A steady flow of companies being prosecuted under anti-corruption and bribery laws (UK Bribery Act and the FCPA).
- An increase in legislation to address and report on human rights abuses by companies.
- An increase in Speak Up (BT's confidential whistleblowing service) reports and conflict of interest registrations.

Examples of how we mitigate

- First and second line assurance teams perform risk-focused thematic reviews in addition to controls monitoring.
- We have policies covering financial and non-financial controls including trade sanctions, conflicts of interest, gifts and hospitality, charitable donations and sponsorship.
- We carry out due diligence on third parties like suppliers, agents, resellers and distributors.
- We include anti-corruption and bribery clauses in our procurement contracts.

Our principal risks and uncertainties continued

Operational risks

Customer experience		Trend	
<ul style="list-style-type: none"> Our customer experience may not be brand enhancing nor drive sustainable profitable revenue growth 		Link to business model (H) (F)	Link to strategy (1) (3)
Potential impact <ul style="list-style-type: none"> If we don't deliver a great customer experience it could damage our brand, cause customers to leave and so reduce our revenue, or even lead to financial penalties. It could also impact our people's pride in working for BT. 		Examples of how we mitigate <ul style="list-style-type: none"> We track a range of customer experience metrics very closely and have programmes in place to drive improvement. For example, our BT transformation plan includes a radical business process simplification workstream. We've launched new and innovative products to further enhance our customers' experience, for example, BT Plus. 	
Developments in 2018/19 <ul style="list-style-type: none"> We continued to improve our customer experience, achieving our best ever customer perception results for BT Consumer, EE, Enterprise and Global Services. Our consumer brands came together under a new Consumer unit. We launched our new Be There brand positioning. 			

Major contracts		Trend	
<ul style="list-style-type: none"> There is a substantial performance risk to our complex and high-value national and multinational customer contracts 		Link to business model (F)	Link to strategy (1) (3)
Potential impact <ul style="list-style-type: none"> If we don't meet contractual commitments, or if customers' needs change, then our expected future revenue, profitability and cash generation may reduce. Contracts may even become loss-making through a drop in revenue, changes to customers' businesses, business failure or contract termination. We are delivering some particularly high-profile infrastructure contracts, notably the Emergency Services Network (ESN) and the Broadband Delivery UK programme (BDUK). If we failed to deliver these, or had an operational failure, it could lead to major reputational damage. 		Examples of how we mitigate <ul style="list-style-type: none"> We have governance, risk management and reporting processes in place at both corporate function and customer-facing unit levels. We have an independent review programme to provide checks and balances on individual contracts. We check how we're managing contracts against a best practice framework, based on our knowledge of running and managing major programmes. We also train our contract managers to better identify and manage risk. 	
Developments in 2018/19 <ul style="list-style-type: none"> We made improvements this year, including: <ul style="list-style-type: none"> learning more about why the performance of some contracts deteriorates and how to stop it happening in future improving the process for management reviewing contracts improving long-term forecasting improving our contract management systems and governance processes redefining and enhancing our controls and assurance. On top of deploying the second and third phases of our BDUK contracts, we continued to win new BDUK work to further extend coverage of superfast broadband in rural areas. We agreed a new ESN contract framework with the Government. 			

Service interruption

Trend



- There is a risk we are unable to prevent and respond to incidents caused by natural perils, network and system faults, and malicious acts that threaten our network
- We may also fail to prevent interruption to our services as a result of supply chain failure, software changes, equipment faults, fire, flood, infrastructure outages and sabotage

Link to business model

[F](#) [I](#) [M](#) [N](#)

Link to strategy

[1](#) [2](#)

Potential impact

- A major interruption event could result in lost productivity, rework and recovery costs, loss of revenue, increased insurance costs, legal or contractual penalties, or even harm to individuals.
- It could also result in customers leaving BT.

Developments in 2018/19

- Extreme weather always challenges our IT and network estate. This year we had to keep our network operating through the joint hottest UK summer on record, lightning storms and heavy rain.
- We've particularly focused on technology lifecycle management to recognise and manage the risks associated with our systems estate over time.

Examples of how we mitigate

- We monitor our IT and network performance very closely, and have controls in place to limit interruption to service.
- Our mobile, geographically dispersed, emergency response facilities help us manage incidents if they do occur.
- We are continuing our programme of providing permanent flood protection for our critical assets most at risk.
- We test our resilience through a number of activities, including a continual cycle of war gaming.
- We review the lessons learned from major incidents in order to try to prevent such things from recurring.

Cyber and information security

Trend



- Security risks could arise from people inside BT or from external sources like hackers, criminals, terrorists or nation states attacking our infrastructure and assets, for example through use of hacking tools, phishing scams and disruptive malware

Link to business model

[F](#) [I](#)

Link to strategy

[1](#)

Potential impact

- A cyber attack could result in disruption to our business or data being compromised, leading to financial loss, long-term reputational damage, loss of market share, regulatory sanctions, fines and contract penalties or termination.
- It could also result in missed opportunities to grow revenue and launch new services ahead of our competitors.

Developments in 2018/19

- Major corporates continue to fall victim to cyberattack, with a number of high-profile incidents occurring in 2018/19.
- EU GDPR came into force on 25 May 2018.

Examples of how we mitigate

- We monitor and log our network and systems, and keep raising our people's security awareness through training and mock phishing attacks.
- We have compartmentalised our IT estate as we provision new cloud-based systems to limit the potential impact of a cyber attack.
- 'Red Team' exercises run by our ethical hackers help us to keep improving security across BT, especially around upgrading our access controls.

Our principal risks and uncertainties continued

Operational risks continued

Supply chain		Trend	
<ul style="list-style-type: none"> There is a risk of disruption to the integrity and continuity of our supply chain Global markets expose us to global supply chain risks. These include different labour standards and environmental and climate change practices, increasing regulation and geopolitical events 		Link to business model (F) (H) (N) (S)	Link to strategy (1) (3)
Potential impact	Examples of how we mitigate		
<ul style="list-style-type: none"> The impact of suppliers failing can vary. If substituting a failing supplier meant we had to disrupt our business, it could cost us a lot of time and money. If we couldn't find a different supplier, it might compromise the commitments we make to our customers, leading to us breaking our contract, losing revenue or incurring financial penalties. If our supply chain doesn't meet legal, regulatory or ethical standards it could damage our reputation and possibly lead to legal action and fines. 	<ul style="list-style-type: none"> In December 2018 we announced that, in line with our long-standing network architecture principles around the use of Huawei, we will replace the current Huawei 4G core (inherited through the EE acquisition). This will be implemented as we move to a future new and combined 4G/5G core. For our most important suppliers, we keep a close watch on our relationships, their performance and ability to meet their obligations. We tell the business when there's a risk of a supplier failing, and our senior leaders review our readiness for such events. We undertake due diligence when we introduce new suppliers and in our continuing business with existing ones. That includes checks on company finances, business systems, accreditations, media reputation and ethical practices. The standards we apply are available on selling2bt.com. We are also refining the way our three lines of defence come together to manage and assure supplier risks. Our dealings with suppliers follow our trading, compliance and ethical policies – see page 27 for more detail. 		
Developments in 2018/19	<ul style="list-style-type: none"> With EU GDPR coming into force, we worked closely with our suppliers through the year to help protect our people and customers and incorporate privacy-by-design by default into the products and services they supply us. We planned extensively for the potential impacts of Brexit on our supply chain. We've been closely monitoring global political developments with respect to Huawei. We started work to establish a new centralised third-party risk and control capability. After the failure of Carillion (one of our large suppliers) last year, we strengthened our risk monitoring processes, including the ways we identify and respond to early warning signs of potential supplier failure. 		

Colleague engagement

Trend



- There is a risk that our people are not sufficiently engaged to enable us to achieve our strategic priorities

Link to business model

(H)

Link to strategy

(1) (3)

Potential impact

- Negative reactions to change might mean us losing talented people, leading to us losing important skills and needing to hire more external people, adding cost to the business.
- Poor engagement also raises the risk of general industrial unrest and action.

Developments in 2018/19

- We've worked constructively with our unions this year to agree a number of transformation initiatives, including changes to our defined benefit pension scheme and the TUPE transfer of our people into Openreach Limited.
- As we create a simpler business, we're also working closely with our unions to roll out a new people framework defining job families and career levels for our people.

Examples of how we mitigate

- We've undertaken extensive consultations with unions, works councils and colleague representatives to make sure we maintain a healthy and positive relationship with our people.
- We're continuing to streamline our management structure – moving responsibilities closer to front line teams and speeding up decision making to help deliver a better customer experience.

Change management

Trend



- Our BT transformation plan could fail to deliver its required benefits
- There is also a risk that such deep and fast change can be distracting and cause uncertainty amongst our people

Link to business model

(H) (F)

Link to strategy

(1) (3)

Potential impact

- If we don't manage our change programme carefully, we may not deliver its intended benefits, it could negatively impact customer experience or affect our employee engagement.
- We could potentially overspend on the change programme itself.

Developments in 2018/19

- We made good progress delivering our BT transformation plan, including establishing a new people framework for our management grades.
- Work continued delivering a new Digital Global Services with an agreed new organisational structure.
- We completed the integration of our Business and Public Sector and Wholesale and Ventures units into a single new Enterprise unit.

Examples of how we mitigate

- We apply a formal structure and governance to our key change programmes – for example our BT transformation plan has a full-time programme office and our *Executive Committee* reviews progress regularly. Change programmes are also supported by our business transformation team.
- Close communication with our people and unions, supported by monitoring our engagement levels, helps us manage the uncertainty that the transformation may cause and to target interventions where needed.

Our viability statement

Assessment of prospects

An understanding of the group's business model and strategy is central to assessing its prospects, and details can be found on pages 12 to 21.

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 significantly through 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 great customer experience, investing in network leadership and transforming our operating model are all designed to support long-term and sustainable cash flow growth.

We assess our prospects on a regular basis through our financial planning process. Our Medium Term Plan forecasts the group's profitability, cash flow 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 of each unit conducted by the chief executive officer and chief financial officer.

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 approved by the chief executive officer and, where appropriate, the Board, after taking into account longer-term risks and opportunities such as the economy, technology and regulation.

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

Viability statement

In accordance with provision C.2.2 of the 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 2022. 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 cycles.

In support of this statement we've stress tested our forecast cash flow 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, 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 buy-back programmes and reducing or ceasing dividend payments.

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