

BT GROUP PLC
Form 6-K
May 21, 2015
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Private Issuer

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

of the Securities Exchange Act 1934

Report on Form 6-K dated May 21, 2015

BT Group plc

(Translation of registrant's name into English)

BT Centre

81 Newgate Street

London EC1A 7AJ

England

(Address of principal executive offices)

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

Form 20-F ☒ Form 40-F ☐

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

Yes ☐ No ☒

Enclosure: BT Group plc Annual Report & Form 20-F 2015 as sent to shareholders

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SIGNATURES

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

BT Group plc

By: /s/ Dan Fitz

Name: Dan Fitz

Title: Company Secretary

Date: May 21, 2015

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Welcome to BT Group plc's

Annual Report & Form 20-F 2015

This is the BT Annual Report for the year ended 31 March 2015. It complies with UK regulations and comprises part of the Annual Report and Form 20-F for the US Securities and Exchange Commission to meet US regulations.

This is our first integrated Annual Report. We want to communicate our story in a more compelling way. We see Integrated Reporting (IR) as the best way to do that. So this year, for the first time, we are reflecting this approach in how we structure and present our Annual Report.

Integrated Reporting is an initiative led by the International Integrated Reporting Council (IIRC). While IR is market-led, its principles and aims are consistent with UK regulatory developments in financial and corporate reporting.

In December 2013, the IIRC issued the IR Framework to establish guiding principles and content elements for integrated reports. We have taken these principles and elements into account in preparing our Annual Report. This is most obvious in the revised representation of our business model and the new section describing our main stakeholders. We no longer report simple outputs, we consider outcomes or the impact that we have as a business. And we use a set of six icons throughout this Annual Report to provide linkage to the business model.

But this is just the start. We recognise that our move toward full IR will continue to evolve. Find out more: www.theiirc.org

Please see the cautionary statement regarding forward-looking statements on page 209.

The Purpose and strategy, Delivering our strategy, Our lines of business and Group performance sections on pages 19 to 92 form the Strategic Report. The Governance section on pages 93 to 136 forms the Report of the Directors.

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Chairman's introduction

We are continuing to make significant investments, for the long-term benefit of both BT and the UK.

We have performed well this year, with our investments delivering for the business in challenging market conditions. We have announced a number of further major investments to support the long-term value of our business.

Investing for growth

Our most significant investment has been in superfast broadband. In 2008, when the UK was in the middle of a recession, the Board approved bold plans to take fibre broadband to 40% of the country. We then increased this target to two-thirds of the UK, a goal we hit a year ago. Today our network covers more than three-quarters of the UK. This includes premises in rural and hard-to-reach areas that we have been able to get to with the help of public funding following competitive tenders as part of the Government's Broadband Delivery UK programme.

Our fibre broadband investment has been a major achievement. It has been one of the fastest rollouts in the world. We have come in on budget and ahead of schedule. And demand for it is strong. The number of premises connected rose over 50% this year.

We have been able to make this investment by exercising strong financial discipline. Our cash flow is almost four times higher than it was when we started building our fibre network as we have significantly transformed our cost base, giving us the oxygen to invest for growth. Being part of a larger group gave Openreach the confidence in future demand to make this long-term investment. Thanks to Openreach, fibre broadband availability is ahead of all the major European countries. And broadband pricing in the UK is amongst the lowest with more than 500 providers selling services in a highly competitive market.

We will continue to work with government to help take fibre coverage to 95% of the UK. But we are not stopping there. We announced this year another major investment to make ultrafast speeds of up to 500Mbps available to most of the UK within a decade, with 1Gbps available to those who want even faster speeds. This will be another

significant investment for BT, ensuring that the UK remains at the forefront of digital communications with a vibrant internet economy.

This year we successfully launched BT Mobile into the consumer market and re-launched our business mobile propositions. We also announced the proposed acquisition of EE, the leading mobile operator in the UK. This will be a transformational deal for BT, accelerating our mobility strategy. We will combine the UK's most advanced 4G network with the UK's most extensive superfast broadband network, allowing us to provide a full range of innovative communications services.

We have secured some great content for our BT Sport channels. We extended and improved our FA Premier League and Aviva Premiership Rugby broadcast rights. And we will start to show our exclusive UEFA Champions League and UEFA Europa League content from this summer.

We will make sure BT Sport remains great value and widely available to UK households.

We have invested further in our customer service. We recruited 2,500 new engineers and more than 500 new people into our contact centres. And we are seeing the benefits of our investment. We have increased the speed of service delivery and repaired faults faster. But we didn't meet our customer perception targets, and in a competitive market we need to do more. This remains an absolute priority for BT and one where we are committed to invest and improve further.

Building our global presence

A significant proportion of our revenue is generated outside the UK, mainly from large multinational businesses. BT Global Services has again consolidated its position as a global leader for managed networked IT services. To best serve our customers it is critical that we have fair access to networks across the world. Other operators can use our networks in the UK on favourable terms. Yet in the US and some European countries incumbents are allowed a distinct advantage in their home markets.

We have therefore continued to work with governments around the world, and are encouraged by progress over the last year. In Europe, completing the Digital Single Market is a key policy priority of the new European Commission. And in the US, the Federal Communications Commission is making progress on its review of the wholesale access market. We have continued to engage too on the EU-US transatlantic trade talks seeking further improvements in transatlantic economic integration and in regulatory coherence.

Rewarding our people

As well as our networks and assets, we are also investing in our people to make sure they have the skills and support they need to best serve our customers. Our performance in the year reflects their expertise, hard work and commitment. I am delighted that in August 2014, over 22,000 people in our 2009 savings-related share option plan were able to buy shares at 61p, representing an average gain of around £41,000 each. Our people also give back in other ways. Twenty-six per cent of them volunteered 53,000 days of their time to help more than 3,700 charities and community groups across the globe.

Strengthening the Board

I am delighted to welcome Isabel Hudson who joined the Board on 1 November 2014. Isabel is Chair of the National House Building Council and was previously a non-executive director of The Pensions Regulator. Her insight and experience in the regulatory, pensions and financial industries will be a strong asset for BT and the Board. As I mentioned last year, Iain Conn joined the Board on 1 June 2014. Iain is chief executive of Centrica and brings a wealth of experience, making a strong contribution to the Board discussions this year. We announced in April that

Warren East will be stepping down from the Board on 31 May 2015 in light of his appointment as chief executive of Rolls-Royce. Warren has made an immense contribution during his time at BT and I congratulate him on this important appointment.

Generating value for shareholders

As a result of our progress this year, the Board is proposing a final dividend of 8.5p, up 13%. This gives a full year dividend of 12.4p, up 14%. We expect to grow our dividend per share by 10%-15% next year and to pay a progressive dividend beyond that.

Our goal is to deliver sustainable, profitable revenue growth supported by the investments we are making. Together with our cost transformation activities this will provide a powerful platform for long-term cash flow growth, and therefore value creation for our shareholders.

Sir Michael Rake

Chairman

6 May 2015

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Strategic Report

Purpose and strategy **Delivering our strategy** **Our lines of business** **Group performance** **Governance** **Financial statements** **Additional information**

Overview

Welcome to BT's first integrated Annual Report, which we have summarised in the next seven pages. Here we outline our purpose, our strategy and our business model. You can see how each of our lines of business performed this year. And how we did as a group. We will also show you where you can find more details in the main part of our integrated report.

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4	<u>Who we are and what we do</u>
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Who we are

We are one of the world's leading communications services companies.

Our business model

Our full business model, showing all the inputs, outputs and outcomes is on page

Our lines of business

For each line of business we provide a summary of what they do and how they did in the year both operationally and financially.

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Our purpose

Our purpose is to use the power of communications to make a better world. By bringing together our networks, our technology and the hard work and expertise of our people, we develop services that our customers value.

We use the power of
communications to
make a better world

Who we are and what we do

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Our goal and strategy

Our goal is to deliver sustainable, profitable revenue growth.

The three pillars of our strategy will help us achieve this goal: delivering superior customer service; transforming our costs; and investing for growth. The better our customer service, the more we will sell and the less time and money we need to spend putting things right. And the better we manage our costs, the better value for money we can offer our customers and the more we can invest in giving customers what they need, today and tomorrow.

We are investing in five strategic growth areas: fibre; TV and content; mobility and future voice services; UK business markets; and supporting leading global companies. By investing in these areas, we aim to broaden and deepen our relationships with consumers, businesses and public sector clients, increasing our relevance to them as markets and technologies evolve.

Previously, we had to depend on cost transformation to grow our cash flow. In the years ahead, revenue growth, together with continued transformation of our costs, will provide a powerful platform for long-term and sustainable cash flow growth. This will create value for our shareholders, as well as for our other stakeholders.

Our business model

Our business model creates value for shareholders, by delivering for customers, society and our people.

Our people, technology, networks and financial strength are key to our business. We invest to build and maintain communications networks in the UK and overseas. We develop products and services that run over those networks these are our key outputs; and then we sell them on a subscription basis to consumers, businesses and the public sector.

By selling services we are able to make a return on our network investments. But the outcomes of our business are more than just financial. What we do matters. We make connections, create new possibilities and deliver value to individuals, families, businesses, governments, communities, and society in general. And we contribute directly to the health of the UK by providing jobs and paying tax.

We make sure we stay in tune with market and competitive trends, so that we make the right investments and create products and services that customers want to buy. Being able to anticipate and respond to changes in our environment makes for a flexible and sustainable business model. We see more and more demand for our services because they play such an integral role in modern life. So we are confident that we will be able to deliver value today and in the future.

Find out more

Our business model
inputs
on page

Our business model
outputs
& outcomes on page

Our Governance
on page

Our Risks
on page

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Key performance indicators

We measure our progress using four key performance indicators (KPIs).

Our key measure of the group's revenue trend, underlying revenue excluding transit, was down 0.4%, in line with our outlook of broadly flat. BT Consumer revenue was up 7%, helped by strong growth in our fibre broadband and TV customer bases. This was offset by declines in our other lines of business, in part due to regulatory pricing pressures.

We grew adjusted earnings per share by 12%. Normalised free cash flow of £2,830m was up 16% and ahead of our outlook for the year of above £2.6bn. Our continued focus on cost transformation, capital expenditure efficiencies and debt reduction helped us achieve these.

Finally, we have improved our customer service, although we want to achieve more. Right First Time (RFT) is our key measure of customer service and is up 4.7% compared with a 1.5% increase last year. All lines of business contributed to this improvement. We delivered significantly better repair performance and shorter lead times for providing UK lines and broadband. BT Global Services made large gains in delivering more of its products within target times. Looking ahead, we need to improve our provision of Ethernet services and recover more quickly when we do fail to meet our promises.

Our performance for the year

This year, we delivered on our core business in globally challenging markets, achieving or beating the outlook we set at the start of the year. BT Consumer launched great value mobile propositions and we have set out our plans to deliver ultrafast broadband with G.fast to most of the UK. For our business customers, we launched a number of innovative solutions, including BT Assure Threat Defence in BT Global Services and cloud-based voice services in BT Business and BT Wholesale.

We have made further progress in transforming our costs. Despite continuing to insource jobs, net labour costs were down 8% as we increased productivity while reallocating our labour resource to be more efficient. We reorganised our business and streamlined our processes. Underlying operating costs excluding transit were down 2%, contributing to EBITDA growing 3%.

Our strong financial discipline has helped us fund investments in our five strategic growth areas. We announced the proposed acquisition of EE for £12.5bn, secured exclusive rights to FA Premier League football matches for a further three years and extended our Aviva Premiership Rugby rights. As well as growing our EBITDA and free cash flow we have reduced our net debt and made further significant contributions to the BT Pension Scheme. Our proposed full year dividend to shareholders is 12.4p, up 14%.

Find out more

Our KPIs
on page

Our financial performance
from page

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Financial highlights

^a Items presented as adjusted are stated before specific items. See page 202 for further details.

^c See definition on page 203 and summarised cash flow statement on page 84.

^b Before depreciation and amortisation.

^d Includes the impact of £1.0bn equity placing. See page 85.

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How our lines of business performed

BT Global Services

We have consolidated our position as a global market leader for managed networked IT services. We help around 6,500 large corporate and public sector customers, in more than 170 countries worldwide, to embrace the digital age, innovate and work more efficiently.

We deliver value to our customers by combining our products and services with industry-specific solutions and consulting expertise. We operate globally and deliver locally, to help our customers make connections and create new possibilities.

We put our customers at the heart of our decision-making and have made progress in improving customer service. By increasing the speed of delivery of our main products, we improved our Right First Time measure by 8.6%. We have enhanced our global capabilities by extending the reach and features of our services. And we launched new solutions including security, cloud-based and unified communications services.

We grew underlying revenue excluding transit in the high-growth regions and Continental Europe. But lower public sector revenue resulted in overall revenue declining. We focused on transforming our cost base, for instance, simplifying our organisational structure in Switzerland and Eastern Europe and improving the process for ceasing access circuits which we no longer need. This meant we grew EBITDA, despite the decline in revenue.

Our operating cash inflow of £349m was lower than we achieved last year, when we had benefited from some early customer receipts. But our EBITDA less capital expenditure measure has continued to grow. We achieved an order intake of £6.5bn, down 7% reflecting large re-signs last year.

BT Business

BT Business provides communications and IT services in the UK and Republic of Ireland. We serve around 900,000 customers.

We are focused on serving small and medium-sized enterprises (SMEs) in three main markets: fixed-voice and data; mobility; and IT services. We have a market share of around 30% in fixed-voice and data but just 1% in mobility and 6% in IT services. We expect these markets to increasingly converge over the next few years as technology and customer needs change. And as they do, we see an opportunity to grow our share of the mobility and IT services markets.

To help achieve this, we launched a number of new products in the year including BT One Phone, BT Cloud Voice and BT Cloud Phone. We relaunched BT Business Mobile, adding 4G access and unlimited wi-fi for all new and re-signing customers. Our proposed acquisition of EE will let us accelerate the sale of converged fixed-mobile services to our existing business customers as well as offer new services.

We have invested in improving our customer service. We provided 35,000 hours of training to improve the skills of our service teams. We have moved more customers onto our new UK Business Solution system, which makes it easier to serve customers with multiple products. And we have improved our online self-service capabilities. These all contributed to our Right First Time measure improving 5.1%.

Underlying revenue excluding transit was down 1% due to lower line and call volumes. But we have increased EBITDA for the third year running through our cost transformation activities, including a 10% reduction in our total labour resource, the merger of two of our IT services units and by renegotiating supplier contracts. Our order intake was broadly level for the year at £2.1bn.

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BT Consumer

We are the largest provider of consumer fixed-voice and broadband services in the UK. We are focused on top and bottom-line growth through selling broadband, TV, exclusive sports channels and mobile services to our customers.

We grew our share of the DSL and fibre broadband market for the sixth year in a row and we have added the most broadband customers of any operator for six quarters running. Customers continue to want faster broadband. 39% of our retail broadband customers are now on fibre. We also sell services through our Plusnet brand. Plusnet has won numerous awards for customer service and value, and helps us address more price-conscious customers.

As well as driving take-up of broadband, we have invested in our TV service. We launched TV Everywhere, which means customers can watch TV channels on multiple devices, and introduced Netflix and a range of new packages. And we are very pleased with the games that we won in the auction for the 2016/17 to 2018/19 FA Premier League broadcast rights. We will be showing 42 Premier League matches each season. That is four more than we currently show, including a live Saturday evening game almost every Premier League weekend.

We re-entered the consumer mobile market this year. All our mobile plans come with 4G, unlimited texts, unlimited access to BT Wi-fi hotspots in the UK and to the BT Sport app, at no extra cost. Our planned acquisition of EE will mean we can provide a full range of innovative communications services to both EE and BT customers.

We hired hundreds of new contact centre staff. We were able to resolve 20% more customer issues in a single call. Our Right First Time measure improved 1.9%. Our revenue grew 7% this year, reflecting the growth in our broadband and BT Sport customer bases. EBITDA was up 24%.

BT Wholesale

BT Wholesale provides services in Great Britain to more than 1,400 communications providers (CPs). We help them achieve their goals by offering them innovative, reliable and cost-effective products and services that complement their own capabilities. This means that we can share in their success.

The market for wholesale services is shrinking as some CPs are building more of their own network infrastructure. It is also highly competitive. But the market for next-generation services, including Ethernet, is expanding.

We have sought to stand out from the competition by providing new services and a better customer experience. We have extended our Hosted Communications Services portfolio and expanded our Ethernet network. And we launched Business Zone – a self-service portal through which CPs can manage their orders and any faults.

We improved our billing and repair processes, so we can answer calls and queries more quickly. We moved our service colleagues into fewer service centres, with a view to increasing the level of expertise available to each caller. Overall, we increased customer satisfaction significantly. And our Right First Time performance was up 4.4%. But our service performance on Ethernet was mixed and it took us longer to provide Wholesale Ethernet than we

would have liked.

Underlying revenue excluding transit fell 7%. This reflected a large contract termination, regulatory price changes following Ofcom's 2013 Narrowband Market Review and a generally tougher trading environment.

We reduced our selling and general administration costs by 20%. But this was not enough to offset the decline in revenue and EBITDA fell 9%.

Our order intake was £1.9bn, the same as last year.

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Openreach

Openreach provides the vital infrastructure that is the foundation of the UK's vibrant internet economy.

We are responsible for providing services over the local loop or local access network, sometimes referred to as the last mile. This consists of the copper and fibre connections between our exchanges and homes and businesses.

We have now passed more than 22m premises with our superfast fibre broadband network. That is more than three-quarters of the UK. We achieved 1.5m fibre broadband net connections in the year. This means that around 4.2m homes and businesses in the UK are now connected – 19% of those passed.

In January 2015 we set out our ultrafast broadband vision for the UK. Using G.fast technology, we expect to offer initial speeds of a few hundred megabits per second to millions of homes and businesses by 2020. As further industry standards are secured, we expect speeds to increase to up to 500Mbps to most of the UK within a decade.

The number of physical lines increased by 215,000 in the year. The number of copper and fibre broadband users on our network rose by 851,000.

We achieved the minimum service levels set by Ofcom, exceeding all 60 measures, though our ambition and plans are to further improve customer service. To help us do this, we hired more than 2,500 new engineers. Our Right First Time measure was up 3.5%, exceeding our target.

Revenue declined 1%, with regulatory price reductions offsetting the impact of fibre revenue growth. Our operating costs were 2% lower which meant EBITDA was flat. Cost efficiencies offset increased volumes, pay increases and the additional engineering resource we recruited to support our provision and repair performance.

BT Technology, Service & Operations (BT TSO)

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

BT TSO works closely with each of our customer-facing lines of business. We create new products for them and make sure that our existing services evolve to meet the changing needs of their customers.

This year we upgraded our core IP network to handle record volumes of data traffic in the UK. Our IT reliability has improved for the fourth consecutive year and the operational reliability of our core voice and broadband network platforms has hit a five-year high.

We are also responsible for managing the group's energy consumption and for putting strategies in place to cut the group's carbon footprint. We have reduced energy usage for six consecutive years^a

BT TSO manages most of our research and development and is also responsible for our worldwide patent portfolio of over 4,500 patents and applications.

BT has a long history of innovation and has pioneered many of the technologies that our business was built upon. In 1926 we held the world's first two-way, trans-Atlantic conversation by radio telephone from our wireless station near Rugby. And in 1943, Tommy Flowers, working in the telecommunications division of the General Post Office (as we were at the time), developed the world's first programmable electronic computer, Colossus. In 1968, we installed the world's first digital telephone exchange. And we laid the world's first, purpose-designed optical fibre submarine cable in Loch Fyne, Scotland in 1980.

^a We have restated our worldwide energy consumption and GHG emission figures for previous years following improvements to our data. Previous estimates of energy usage have been updated with measured figures.

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30 years of innovation:

finding a better way of doing things

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Purpose and strategy

This section is about our purpose and the strategy we are following to achieve it.

It explains how improving our customer service and transforming our costs go hand-in-hand. And that cost transformation gives us the oxygen to invest in five strategic growth areas, so that we can broaden and deepen our customer relationships.

Our purpose

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

Our goal

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

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22 Deliver superior customer service

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Our culture

Becoming a healthier organisation will help us to deliver our strategy. It will ensure we can be resilient and agile in a changing world.

In last year's Annual Report, we talked about our future plans in terms of the six strategic priorities that were part of our 'better business with a better future' strategy. Since this strategy has now evolved, we no longer report against those priorities. But the line of business section does have details of our progress and the investments we have made in those areas (from page 53).

This Strategic Report was approved by the Board on 6 May 2015.

By order of the Board

Dan Fitz

**Group General Counsel
& Company Secretary**

6 May 2015

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Chief Executive's introduction

It's been a ground-breaking year for BT. We've announced some major investments and launched a number of innovative new services.

At BT our purpose is to use the power of communications to make a better world. We're proud our technologies have changed what's possible and allow people to do new things, and that we play a meaningful role in society through the products and services we deliver every day. Our achievements are rooted in innovation. That was true when we were formed in 1846. And it's more true than ever today, after 30 years as a listed company. That is why we are celebrating this theme in this, our first integrated Annual Report.

It's been a ground-breaking year for BT. We've made some key decisions and announced some major investments. We've delivered on the outlook we set at the start of the year and have delivered strong growth in cash flow and profits.

This year we reached an agreement to buy EE, the leading UK mobile operator. It will be a transformational deal for BT. We will combine the best fixed network with the best mobile network, offering our customers new, innovative and seamless services. And we will invest in our networks and customer service to provide them with a great experience, wherever they are. We expect to generate substantial synergies – both in terms of cost savings and additional revenue – and are confident that the combination will generate significant shareholder value.

We're delighted that the acquisition has now been approved by our shareholders. While we await regulatory clearance, we have pushed ahead with our own mobility plans, launching our BT Mobile consumer service, in addition to our successful business mobile propositions.

We also announced plans to transform the UK's fibre broadband landscape from superfast to ultrafast. Using G.fast technology, we will be able to offer speeds of up to 500Mbps to most of the UK within a decade. It is thanks to our research labs that we have developed innovative new ways to use this technology and we will start customer trials this summer. We will also be offering a 1Gbps service to those who want even faster speeds. This will be another large

and multi-year investment by Openreach that will require the right investment and regulatory environment. It will be the right thing for both BT and the UK, providing even faster speeds in an already competitive market.

Our BT Sport TV channels continue to prove popular with customers and we're pleased to have secured FA Premier League football rights for a further three years, and an extension with Aviva Premiership Rugby for a further four years. With exclusive live football from the UEFA Champions League and UEFA Europa League, we'll be showing even more top sporting action from this summer. BT TV now offers access to Netflix, the world's largest internet TV network. We became the UK's first TV platform to offer buy-to-keep films and TV shows on multiple devices, and we've added functionality such as TV Everywhere so you can get BT TV in a second room or watch on the go with the BT TV mobile app.

For our business customers, we launched a number of innovative services such as BT Assure Threat Defence, BT One Phone and BT Cloud Voice. We are helping companies to better identify and react to sophisticated cyber security threats. Our cloud-based services give our customers even more functionality and flexibility. And we enhanced a number of our core products and services like our audio conferencing service in partnership with Dolby, which enables outstanding sound clarity.

While we expect to face continuing declines in the revenue we earn from the UK public sector due to lower levels of expenditure, we won new public sector contracts in the year and our investments overseas continued to deliver, with good growth in Asia and the Middle East as we support leading global companies.

We have continued to improve the service we provide to our customers. We recruited 2,500 new engineers and more than 500 new employees into our contact centres around the UK. Each of our lines of business made improvements. We increased the speed of service delivery, repaired faults faster and fixed more customer issues first time.

But we recognise we're not yet where we want to be and this will be a key priority for us in the years ahead. These days, life and work is built around connectivity. Through us, millions of individuals connect to friends and family, and have a wealth of information and entertainment at their fingertips. We help companies to work smarter and compete in global markets. And we enable essential public services to be delivered. Customer expectations are rising and we recognise how important it is to improve the service we provide.

By improving our service and providing the products our customers need, we can broaden and deepen relationships and deliver our goal of sustainable profitable revenue growth for the business.

We made great progress over the last year. Our results, and the investments we are making, position us well for the future and we have increased our free cash flow outlook for the coming year.

We have a strong platform to build on and a team I know will deliver. We are looking forward to the year ahead.

Gavin Patterson

Chief Executive

6 May 2015

Find out more

Watch my video online at
www.bt.com/annualreport

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Our purpose

BT's purpose is to use the power of communications to make a better world.

We are here to meet the needs of our customers, delivering the experience, products and services that matter to them. Millions of individuals connect through us to their friends and family, and have huge amounts of information and entertainment at their fingertips. The smallest companies right through to multinational corporations use our services every day to conduct their business and compete in the global marketplace. Many public services rely on our technologies, and in the UK the telecoms industry operates across our networks. Our success as a business depends on delivering value to all our customers, enabling them to fulfil their needs and aspirations.

The connectivity we provide every day plays an essential role in modern society and economies. Our core business represents a significant part of the social infrastructure in the places where we operate.

It is because we recognise how important connectivity is today that we also work to extend the value we can add to communities where we operate and to society at large by finding new ways that our products and services can bring social and economic benefits. We are committed to using our technologies to respond to the climate change challenge. And we enable our people to contribute their skills and energies to make a positive impact in areas of social need.

It is by creating value for our customers and society that we will satisfy the needs of our shareholders and deliver sustainable profitable revenue growth.

Our goal

Our goal is to deliver sustainable profitable revenue growth.

Previously, we had to depend on cost transformation to grow our cash flows. In the years ahead, revenue growth, combined with continued transformation of our costs, will provide a powerful platform for long-term and sustainable cash flow growth.

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

Our strategy

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

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

The three pillars of our strategy help us do that: delivering superior customer service; transforming our costs; and

investing for growth. The better our customer service, the more we will sell and the less time and money we need to spend putting things right. And the better we manage our costs, the better value for money we can offer our customers and the more we can invest in giving customers what they need, today and tomorrow. And these principles in turn drive our business model (see page 28).

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

Find out more

Our business
model on page

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Deliver superior customer service

Every day we touch the lives of millions, providing services that help people get the most out of their working and personal lives. We recognise how important it is to improve service as the impact when things go wrong is greater than ever before. Getting the customer experience right will not only benefit our customers, it will make our business more cost effective too. Customer service and cost transformation go hand-in-hand.

To make sure we are equipped to meet the changing and growing demands of consumers and businesses, a group-wide transformation, to put the Customer First, is underway. You can find out more on page 31.

Right First Time (RFT) is our key measure of customer service and tracks how often we keep the promises we make to our customers. Our overall improvement of 4.7% (2013/14: 1.5%) reflects positive contributions from each of our customer-facing lines of business. We achieved significantly better repair performance and delivery times for providing UK lines and broadband. Within BT Global Services, we made large improvements to our speed of delivery. But we still want to do better. You can find more details in the line of business section on operating performance.

Customer service is one of the factors used in determining the annual bonus of executives. It is made up of the RFT metric and a new customer perception measure (see page 113).

In last year's Annual Report we outlined a number of specific areas that we would focus on this year, including investment in our network, improving our online capability and changing some of the key processes relating to installations and when customers move house.

We have made some good progress in these and other areas, including:

- recruiting 2,500 new engineers;
- over 1,000 system and process changes to make it easier for our customers to deal with us and to help our people support them. This includes improving our websites so that it is more straightforward to make and track orders, and find information and help more easily;
- investing in our network to make it more resilient to extreme weather conditions (in both summer and winter);

specialist diagnostic equipment, alarms and new handheld devices to help our engineers find faults quickly, increasing their ability to get to the root of the matter and fix more issues in one go; and deploying a new appointment booking system for calling customers back and providing training in communication skills for our advisers.

But we still want to do better. Looking ahead, we are focusing on five key areas:

Acting on insight	We are using the insight of our customers, our people and other companies to guide decision-making and create products and services based on the changing demands and priorities of our customers. And as we explain below, we are developing a new way to analyse the effectiveness of our processes from the customer's perspective. We will use this insight to improve the way we do things.
Keeping our customers connected	We are making our products and networks more resilient. Monitoring our networks and ordering systems will help us identify issues sooner – in many cases before the customer is even aware there is an issue.
Creating great tools and systems	We are improving the way we keep customers informed. We continue to develop our websites, offering more self-help features and online support. Engineers are letting the customer know they are on the way before arriving at the premises. And we are trialling an app to help customers track the whereabouts of their engineer before a visit.
Working better across our organisation	We are changing the way our customer-facing teams are organised so that our people can take greater ownership when they are dealing with customers' enquiries. We have adopted a new approach to help us analyse and improve how we perform in typical customer interactions, like ordering a service from us or reporting a fault. And further analysis of our repair process is helping us to understand what we need to do to make the customer experience better.
Supporting our people	<p>As well as redesigning processes, systems and policies, we are urging our people to put themselves in their customers' shoes, take personal ownership of issues and make it easy for our customers to order and use our products and to contact us when they need to.</p> <p>The wellbeing of our people is important to us and helps them deliver a good service to our customers. This is particularly true in Openreach which has experienced a rise in sickness absence rates among some of our older workers. We are focusing on early intervention to address this and we provide support services to help our people return to their roles. You can find more details on page 32.</p>

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Transform our costs

We run large and complex cost transformation programmes which are led by a team of internal consultants. They are BT people. This makes sense because they know our business better than anyone.

Their approach is based on a methodology honed over ten years and underpinned by forensic data analysis, strong governance and the support of senior management to make change happen quickly and sustainably.

This year, our underlying operating costs excluding transit were down 2%, reflecting an 8% reduction in net labour costs and lower payments to other telecommunications operators. These were partly offset by increased programme rights charges reflecting a full year of BT Sport. We reduced our operating costs by around £600m this year. Over the last six years we have reduced our operating costs and capital expenditure by around £5.5bn.

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

To strengthen cost transformation (CT) and its application throughout the business we have an in-house CT Academy. The CT Academy is responsible for the continued development of our change professionals. This year alone it has trained and coached more than 1,800 people. BT is the only UK organisation currently licensed by the British Quality Foundation to certify qualifications to the most advanced levels in Lean, Six Sigma and Change Management methodologies on such a scale.

Programmes this year included:

- taking tried-and-tested methods from the UK and using them overseas to reduce cost of failure, improve efficiency, streamline organisational structure and get better value for money from suppliers;
- identifying how we can improve the utilisation of our engineering teams and standardise the way they work. We can reduce the number of engineers required at a particular location by investing in their training to make sure they are multi-skilled. This programme has identified opportunities to reduce costs while shortening delivery times on core products like Ethernet;
- tightening up our contact centre operations by closing down small, inefficient centres, standardising technology and processes and rebalancing and reprioritising activities between the UK and overseas. (Better tools, training and utilisation of our service colleagues have made them more productive and helped them answer enquiries from customers more effectively);
- reducing the cost of failure across the lifecycle of our IT systems. By designing and developing them better, they

fail less often, improving service and reducing cost; and

launching our new group-wide Central Business Services capability, (effectively a shared service centre), to support contract management and accounting, procurement, financial services and HR. This simplifies the way we work and means we can share best practice to improve efficiency and service.

Looking ahead, we are focused on a number of areas including:

reviewing the effectiveness of our sales teams: to reduce administrative effort and focus people on what really matters – selling to customers; ensuring we have the right people, with the right skills, aligned to the best opportunities in the market; and by revising our incentive schemes to better align with desired outcomes; large end-to-end programmes specifically focused on improving customer experience in a number of delivery and repair journeys through reducing waste in the process and making it easier for our customers to interact with us; rationalising and standardising our products, networks, applications and platforms to remove complexity and reduce the cost of failure; and

reviewing the effectiveness and efficiency of the back-office teams that support our customer-facing people.

We benchmark what it costs us to do business against other large telecommunications companies. We keep making progress but we can still see more that we can do. We also look beyond the world of communications to see what lessons we can learn from other industries. We are confident that there are plenty of opportunities to reduce costs further.

You can read about cost transformation within our lines of business from page 53. And the group's performance on operating costs is described on page 82.

Find out more

Cost transformation
within
our lines of business from
page

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Invest for growth

We are investing in five strategic areas. These are the things we believe will deliver sustainable profitable revenue growth which will deliver value for our shareholders:

Fibre

Customers are asking for faster broadband. We are delivering that with our superfast fibre broadband deployment. It covers more than three-quarters of the UK and we are working to extend its reach even further (see page 71).

We have long been at the forefront of fibre innovation and investment and we aim to keep it that way. In January, we set out our vision for ultrafast broadband. With the right regulatory and investment environment, we plan to transform the UK broadband landscape through the widespread deployment of G.fast. We expect G.fast to deliver speeds of a few hundred Mbps by 2020 and up to 500Mbps to most of the UK within a decade. We will also introduce a 1Gbps premium fibre broadband service (see page 75).

TV and content

We have improved our TV proposition this year. We redesigned its look and feel and enhanced the service adding things like TV Everywhere, buy-to-keep movies and TV shows, Netflix and the BT Sport Extra red button. We also launched Sky Sports 1 and 2 on YouView.

We won the rights to show more live FA Premier League football matches for three years from August 2016, and extended our Aviva Premiership Rugby rights to the end of the 2020/21 season.

This summer, BT Sport will become the new home of UEFA Champions League and UEFA Europa League football for the next three seasons.

Read more about these developments in the BT Consumer section on page 64.

Mobility and future voice

2014/15 was a watershed year for us. We launched three new products in our business IP voice portfolio (see page 61), returned to the consumer mobile market (see page 65) and agreed definitive terms to acquire EE. As explained below, this deal will make us the UK's leading converged communications provider.

UK business markets

There are clear opportunities for us to grow our share of the UK business market and increase the revenue we get from each customer.

So we have improved our product portfolio and are focusing on selected areas of IT services where we can grow, such as data centres, cloud, managed hosting and security (see page 61).

Leading global companies

We are investing in our services, network and expertise to increase our share of spending by our large multinational customers. By extending our global network and data centre footprint (see page 58), we are expanding the reach and features of our services, making them more flexible and better at working together. We are helping our customers address their challenges in the world of digital business, from cloud and collaboration, to mobility and security. By investing in customer service and global account management capabilities, we continue to support leading global companies as they expand into new markets. And we help public sector organisations to better serve citizens.

Proposed acquisition of EE

In February 2015 we announced that we had agreed definitive terms to buy EE, the leading mobile network operator in the UK, for a purchase price of £12.5bn.

The deal, which is still subject to merger clearance, will be transformational for BT. It will allow us to accelerate our mobility strategy. And it will increase our capacity for future investment and innovation in networks and services, as we continue to build world-class digital infrastructure in the UK.

We believe the deal will generate considerable value for shareholders. We expect net cost synergies to be worth £3.0bn (after integration costs) and we expect to generate revenue synergies with a total net present value of approximately £1.6bn^a.

The transaction should be accretive to free cash flow per share in the first full year post completion of the deal.

By combining EE with BT, we will be able to provide customers with innovative, seamless services that combine the power of fibre broadband with wi-fi and advanced mobile capabilities.

Our culture

To deliver strong performance we have to be healthy. A healthy organisation is made by the structures and processes that help people do their jobs effectively; and the attitudes and actions of all individuals.

We have defined our values to guide how we want to work. We have identified the changes we need to make: putting the customer first in everything we do, simplifying how we work and developing a leadership style which helps to drive change and gives people the confidence to take responsibility. We believe people want to work with a company that recognises what they have to offer, supports their ability to grow and is a positive force in wider society. By making all of this happen we will create an environment that brings the best out of our people.

Becoming a healthy organisation will enable us to deliver our strategy. It is about ensuring we can be resilient and agile in a changing world and, at the same time, make BT an exciting place where our people can all be proud to work.

^a For the assumptions underlying our synergies estimates, see Additional Information on page 222.

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Delivering our strategy

This section explains how we deliver our strategy. We describe our business model and the importance of our people, assets and the research and development we do. We report on the status of our brand and outline our relationships with our main stakeholders. We also explain our approach to human rights and describe the regulatory environment and risks that affect us.

Our people

Their commitment, expertise and diversity are key to the success of our business. Many of them do volunteer work, benefiting charities and community groups.

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Our networks and physical

33 assets

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33 IT systems

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Communities and society as a whole

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Our global reach

We offer services in more than 170 countries. Our fibre broadband network in the UK is a key asset.

Our research activities

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

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Operating Committee

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

The *Operating Committee* has collective responsibility for running our business end to end and delivering our strategy. It monitors the group's financial, operational and customer service performance and has cross-business oversight of the lines of business. It also reviews the group's key risks and considers the potential threats to and opportunities for the business.

The Operating Committee:

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

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

Alison Wilcox will join the business in July 2015 as Group HR Director and an Operating Committee member, following the departure of Clare Chapman in March 2015.

Chief Executive

Appointed as Chief Executive in September 2013 and on the Board since June 2008.

Gavin was previously CEO, BT Retail and from 2004 to 2008 was Managing Director, BT Consumer, BT Retail. Before joining BT, Gavin was managing director of the consumer division of Telewest (now Virgin Media). Prior to that, he spent nine years at Procter & Gamble, rising to become European marketing director.

Group Finance Director

Appointed to the Board as Group Finance Director in December 2008.

Tony was formerly CFO, BT Retail, and Managing Director, BT Enterprises and, from 1997 to 2004, he was CFO and then Chief Operating Officer of BT Global Solutions. He qualified as a Chartered Management Accountant.

CEO, BT Global Services

Appointed CEO, BT Global Services in October 2012.

Luis was formerly president of the European, Middle East, Africa and Latin America operations of BT Global Services serving some of our biggest global customers. Luis also led BT Global Services Telecom Markets unit, managing business with carriers and operators outside the UK.

Before joining BT, Luis worked at Ericsson, IBM and Group Santander. Luis has a telecommunications engineering degree.

CEO, BT Consumer

Appointed CEO, BT Consumer in September 2013.

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

Prior to joining BT, John held roles as marketing and commercial director at Telewest (now Virgin Media) and brand manager at Procter & Gamble. John graduated in modern history from Oxford University.

^a Directors of BT Group plc. You will find their full biographies on pages 96 and 97.

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CEO, BT Technology, Service & Operations and Group CIO

Appointed CEO, BT Technology, Service & Operations when it was formed in January 2013.

Clive was formerly CEO, BT Innovate & Design and prior to that President, BT Global Services Portfolio & Service Design where his focus was to increase profitability and increase customer satisfaction for BT Global Services.

Clive was also formerly Managing Director, BT Global Platforms in India and has also held positions as CIO BT Wholesale and Director CRM for BT Retail. Clive has an Electronic Engineering Degree.

CEO, BT Wholesale

Appointed CEO, BT Wholesale in September 2011.

Nigel was formerly Managing Director, BT Business, BT Retail and prior to that Managing Director, Customer Service, BT Retail.

Nigel was also Managing Director, BT Enterprises comprising six standalone businesses leveraging the BT brand and CEO BT Conferencing turning it into one of the top audio and video conferencing businesses globally.

Nigel has also held roles in BT as Director of Retail Product Management and General Manager of BT Consumer Products Division.

CEO, BT Business

Appointed CEO, BT Business in September 2013.

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

Before joining BT, Graham held a number of senior management positions including managing director of NTL in the Republic of Ireland. Graham holds an Accountancy and Finance degree and qualified as a Chartered Management Accountant.

Group HR Director (from July 2015)

Alison will join BT in July 2015 as Group HR Director.

Alison was formerly Regional HR Director for Vodafone Europe and prior to 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.

Dan Fitz

Company Secretary

Dan is the Group General Counsel & Company Secretary of BT Group plc. He joined BT in April 2010 as its Group General Counsel and was appointed Company Secretary in November 2012. Dan previously spent six years at Misy's and 12 years at Cable & Wireless. A British and US dual national, age 55.

Joe Garner – Invitee

CEO, Openreach

Appointed CEO, Openreach in February 2014. Before joining BT, Joe was head of the UK bank at HSBC. Joe has extensive experience in customer service and programme delivery. The CEO of Openreach cannot be a member of the *Operating Committee* under the provisions of the Undertakings.^b

^b You will find more information on the Undertakings on page 38.

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Our business model

Our business creates value for shareholders, by delivering for customers, society and our people.

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

The way we describe our business model is evolving. This year, for the first time, we include elements of the IIRC's Integrated Reporting (IR) Framework. In the Framework, the resources used and the relationships affected by an organisation are collectively referred to as the capitals. The IIRC defines the capitals as: financial, manufactured, intellectual, human, social, and natural. We have adopted a similar approach by using a common set of icons for the inputs, outputs and outcomes of our business model, although we describe them in terms that are most meaningful to our business.

Inputs

Our business model starts with the things that set us apart from our competitors. We have a strong combination of people, technology, networks and other physical assets. Our research and development activities support innovative new ways of doing things and advancements in our technology. And we have the financial strength to invest in these areas to stay ahead of the competition.

Then there are the relationships we have with our stakeholders, such as our customers, and the natural resources we consume as part of doing business.

Find out more about the key inputs to our business via the page references in the business model graphic.

Outputs

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

We sell through a range of channels including online, contact centres and desk or field-based account managers. Our revenue is mostly subscription or contract-based. People, households and SMEs pay for standalone or bundled services monthly, quarterly or annually (typically on 12 to 24 month contracts). Large corporate and public sector customers usually buy managed networked IT services on contracts spanning several years. Our wholesale customer

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

Improving the skills and expertise of our people, both through on-the-job experience and our investment in their training and development, is another output of our business. We also generate intellectual property like patents. Finally, the waste and emissions produced by our operations are considered to be outputs (more details of what we are doing to minimise these can be found on page 40).

Outcomes

The financial outcome of what we do hinges on the performance of our lines of business. Together they contribute to the overall performance and key performance indicators (KPIs) of the group.

But there is more to what we do than just financial value. What we do matters. We help millions of people communicate, be entertained, do business and generally live their lives. We help our customers reduce their carbon footprint, for example by providing conferencing facilities which mean they do not have to travel as much. And we contribute directly to communities and the health of the UK by providing jobs, working with suppliers and paying tax.

All of which contribute to the strength of our brand – a key asset for us as it can influence whether a potential customer buys from us or one of our competitors.

Inputs

Financial strength

We are very focused on growing our cash flow over the long term. Together with a prudent financial policy and a strong balance sheet, we can invest in our business and in the things that set us apart from our competitors.

[Read more on page](#)

Our people

We have almost 90,000 people. Their commitment, expertise and diversity are key to the success of our business.

[Read more on page](#)

Networks & physical assets

Our networks and platforms are the foundations of the products and services that we sell. We continue to invest in these to improve the service we offer our customers.

[Read more on page](#)

Research & development

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

[Read more on page](#)

Stakeholders & relationships

They include: customers, communities, shareholders, lenders, our pension schemes, suppliers, government and regulators.

[Read more on page](#)

[Natural resources](#)

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

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Outputs

Skills & expertise

We invest in our people so that they are better equipped to do their jobs and are more engaged. And we encourage them to volunteer to benefit the communities we serve.

Read more
from page

Products & services

Our products range from fixed and mobile telephony and broadband services for UK households through to managing the networks and communications needs of some of the world's largest multinational companies.

Read more
from page

Innovation

We have a long history of innovation. It helps us offer new and improved products and services, find better ways of doing things and can generate valuable intellectual property for us.

Read more
on page

Waste & emissions

Our operations produce waste and emissions but we are working to minimise these.

Read more
on page

Outcomes

Group performance & KPIs

The group's financial results and our progress against our KPIs demonstrate the key commercial outcomes of our activities. [Read more from page](#)

[Line of business performance](#)

Our lines of business sell our products and services and put our strategy into action. [Read more from page](#)

[Our brand strength](#)

Our brand is a key asset. Our investments in areas such as BT Sport have increased its value. [Read more on page](#)

[Societal benefits](#)

We are increasing digital inclusion and helping people get the most from being online. Our people and platforms support a number of good causes. [Read more on page](#)

[Environmental benefits](#)

We provide innovative ways for our customers and suppliers to reduce their waste and carbon emissions. [Read more on page](#)

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How we create value

Delivering a superior customer service, transforming our costs and investing for growth in our five strategic areas are central to both our strategy and business model. They are key business activities. Better customer service means that we spend less time and money putting things right. These cost savings, combined with savings from working more efficiently and the cash that we generate from sales, mean we can invest in the future of our business.

Our ability to deliver our strategy is as much about how we do things, as what we do. That is why being a healthy organisation (see page 31) and living our corporate values (below) are so important to us. Our values reflect how we work together in BT to create a healthy, high-performing business. And that is why our people are key to the success of our business.

Our sustainable business model

Communications markets are very competitive, particularly in the UK. There are both opportunities and risks. We make sure we stay in tune with market and competitive trends through teams dedicated to insight . And we undertake an annual materiality review to understand the societal and environmental issues that are important to our stakeholders.

Our Enterprise Risk Management framework (see page 41) helps us identify and mitigate the challenges and risks we face. And we use governance committees to make sure we make the right investments and deliver products and services that customers want to buy. We see more and more demand for our products and services because they play such an integral role in modern life.

Being able to anticipate and respond to changes in our environment makes for a flexible and sustainable business model. And by continuing to reinvest in the business, we are confident that we will be able to deliver value both today and in the future.

Financial strength

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

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

We have a prudent financial policy that governs how we use the cash we generate.

We want to continue to invest in the future of our business and in particular in our five strategic growth areas (see page 24).

At the same time as investing in these areas, we intend to reduce our net debt over the medium term and are targeting a BBB+/Baa1 credit rating. We have a strong balance sheet today, but we want to make it stronger.

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

We aim to balance the interests of all stakeholders.

We have summarised our financial policy below:

We believe that this approach provides us with the financial flexibility to make long-term investments in the best interests of the company; and also in the best interests of communities where we operate.

It is this approach that means we can invest over £3bn to help take fibre broadband to 90% of the UK. And our financial strength means we can go even further. We will work with government to help take fibre broadband to 95% of the country. And with the right investment and regulatory environment, we will invest in ultrafast broadband to deliver up to 500Mbps to most of the UK within a decade with 1Gbps available to those who want even faster speeds.

Our financial strength has also underpinned the investments we have made in BT Sport both this year and last, and which we will continue to make in the years ahead. And it meant that in February 2015 we could announce the proposed acquisition of EE, the leading mobile network operator in the UK.

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

Our people

Every day our people touch the lives of millions, providing services that help our customers get the most out of their work and personal lives. We invest in our people so they can succeed and contribute effectively to our business.

Believing in what we do

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

Living up to our values in everything we do will help build the kind of business our people are proud to be part of. Our values are:

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A global workforce

At 31 March 2015 we had 88,500 full-time equivalent (FTE) employees in 60 countries, with 70,900 of them based in the UK. We are one of the largest employers in the UK, supporting its economy by providing jobs and income.

This year we recruited over 9,900 people. Of these, more than 5,300 work in the UK, including over 500 who are on our renowned apprenticeship scheme.

Across our global business we continue to simplify the way we work, for example, by transforming our HR and finance systems and services. This makes things easier for our people, so we can serve our customers better.

As our business evolves to meet the needs of our customers, we adapt our organisation, redeploying people through the BT transition centre. This helps us avoid redundancies. Last year in the UK, 2,100 people were redeployed, meaning that we retained experienced people with the skills we need for the future.

A customer-facing workforce

This year we recruited 2,500 new engineers and more than 500 new service colleagues to work in our customer management and contact centres. We created 1,100 jobs in the UK that were previously performed by agencies in the UK and overseas.

Our Customer First programme supports our business strategy by making sure our people have the support, skills and confidence to give our customers a great experience. Examples include:

- innovative apps to give engineers better access to information (see page 14);
- training in communication skills to cut out jargon and complexity; and
- reorganising teams to focus on the needs of customers at specific points in their relationship with us.

We are making use of internal social media tools to encourage colleagues to share best practice, ask each other questions and celebrate the progress we are making.

Investing for growth

Learning matters at BT. We want our people to build their skills and careers and our Academy helps them do this.

The Academy is BT's new approach to learning. It is not a physical place or building, it is home to a combination of materials, events, programmes and knowledge-sharing activities which help our people learn in different ways. The Academy is organised across four faculties: Leadership, Technical, Customer and Business. Each faculty supports a number of communities we call professions which have similar learning and career journeys.

We have made accessing a profession easy by investing in an innovative social collaboration platform helping people to develop their skills and careers together.

Around 9,600 leaders from senior executives to junior managers have learnt new ways to lead, coach and support their teams. And a global programme is giving 5,600 frontline people the skills, tools and techniques to continuously improve the way we serve customers.

We intend to recruit around 1,000 graduates and apprentices in 2015/16. And we are also offering up to 1,000 vocational and work experience placements to 18-24 year olds as part of the UK employer-led initiative, Movement to Work. This is backed by the Prince's Trust and the Government.

A healthy organisation employee engagement and involvement

We are becoming a healthier organisation. Our plans to improve organisational health have included the creation of the Academy, the implementation of Continuous Improvement initiatives throughout the business and an award-winning leadership development programme.

Find out more

To find out more about our

apprenticeship scheme visit

www.btplc.com/careercentre

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Each quarter about 35,000 people provide feedback on working for BT through our employee engagement survey. Our surveys help us develop a focused people strategy and support action planning at a local level. We have maintained engagement levels at 3.82 (out of a maximum of 5, with a telecoms benchmark of 3.90), the highest level since we started the survey in 2008.

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

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

Diversity at work

At BT we believe that we unlock the power of our people when we value their diversity. This is a priority for us because a diverse workforce fosters greater innovation, helps us better understand and serve our customers and empowers our people to deliver their best.

Business in the Community benchmarks consistently rank us in the top ten private-sector organisations for women and people from Black and Minority Ethnic (BME) backgrounds. And as a Two Tick[®] employer, we are committed to attracting, developing and retaining people with disabilities. Applicants with disabilities or long-term health conditions and who meet the minimum criteria for a vacancy are automatically put through to the first stage of the recruitment process.

We were again named this year as one of The Times Top 50 Employers for Women. But we have the ambition to move further and faster. We are determined to drive up the number of women in our workforce. 19,655 women currently work for us – many on flexible contracts, giving us a full-time equivalent of 18,457 female employees. This corresponds to 10,358 FTE (25%) of our management population and 8,099 (17%) of our team members.

At Board level, our policy is to aim to have at least 25% female representation. We were below this for part of the year, but with three out of 11 Board members, we now have 27% female representation. We are working to attract more women into BT and our sector. And we are reviewing our working practices and development opportunities to

make sure that an increasing number of women can enjoy successful careers with us.

Staying safe and well

Our people tell us wellbeing has improved by 2% across the company. We have made good progress on reducing accidents while working. The Lost Time Injury rate came down by 23% to 1.5 incidents per million working hours. However, the changing age profile of the business presents some challenges for us as mature and experienced workers are replaced by younger people who sometimes have a different attitude to risk. We have targeted our training to address this.

Sickness absence rates have increased by 6% to 2.2%. There are differences between the lines of business with a steady reduction in most of them but a sustained increase in Openreach. Here, mental ill health and musculoskeletal disorders in older workers are the main causes. The increase in sickness absence is mainly because people are having to take more time off. Extended absences (over one month) now make up two-thirds of all lost time.

Our focus is on early intervention to improve attendance. And our support services help around 93% of people return to their role on full duties.

Volunteering

It is a source of great pride to BT and our people that so many colleagues volunteer. This year, more than 22,700 (26%) of our colleagues (up 62% from last year) spent 53,000 days supporting more than 3,700 charities and community groups around the world. Our people can use up to three working days a year to support causes that matter to them. This means they can have a real impact in the communities where they live and work. Our ambition is that by 2020, two-thirds of BT people will be volunteering time to support good causes.

More than 5,300 (2013/14: 2,200) people took part in volunteering specifically as part of a team. Specialist BT teams helped charities with particular issues which needed our expert input and knowledge. Other BT teams used their energy and enthusiasm to make a practical difference in local areas.

Charities supported in this way include Place2be, a UK children's mental health charity which we helped with their communications strategy, and Leicester Outdoor Pursuits Centre where we helped build equipment to enable wheelchair users to access an abseil tower. In Spain, BT's human resources team helped young people facing severe financial issues prepare for work. And in Hungary, 50 BT volunteers improved the living conditions in a young people's refuge in Budapest.

In India, more than 80 BT volunteers, working with our local partner Katha, continued to support the Katha Information Technology and E-commerce School (KITES), a charity which provides ICT training for children in one of Delhi's largest slums. Over 19,000 children have already completed ICT courses. KITES also supplies more general schooling for children and teaches business skills to women. Mridul Srivastava from BT Global Services won this year's Chairman's Award for his contribution to society and the lead he has taken in encouraging volunteering at KITES.

Pay and benefits

We compare salaries with other companies in our markets to make sure our packages are competitive. In the UK, pay for the vast majority of our engineering and support people is determined by collective bargaining, with fair terms and conditions for all. Managers' pay and bonuses are linked to business performance and their personal contribution.

Our executives are offered long-term incentives to align their reward with the creation of shareholder value. The amount ultimately received depends on BT's performance over a three-year period. In accordance with our regulatory

obligations, incentives for senior leaders in Openreach are tied to its business performance rather than that of the wider group.

We also provide a range of pension and retirement plans for employees globally, either through dedicated company plans or by contributing to state retirement arrangements where applicable. You can find details of the BT Pension Scheme and other retirement plans on page 89.

Sharing in success

Around 60% of our people take part in one or more of BT's savings-related share option plans (saveshare), which operate in over 25 countries. In August 2014, over 22,000 people in our 2009 saveshare plan were able to buy shares at 61p, representing an average gain of around £41,000 each. Around 7,000 of these people, who participated at the maximum allowed, were able to buy shares worth just under £90,000 (based on the share price on 31 July 2014). We believe this was one of the largest ever payouts by a UK plc for an all-employee saveshare plan.

^a The Two Ticks is an accreditation that is given to organisations that are committed to employing disabled people.

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Our networks and physical assets

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

Network platforms

Our global reach

Our global network provides service to more than 170 countries and is supported by in-country networks and infrastructure. Most of our network assets are in the UK and Europe. We continue to selectively expand the reach of our network to support multinational companies in other regions.

The scale and reach of our global multi-protocol label switching (MPLS) network is a key competitive differentiator. This single IP-based network lets our customer-facing lines of business launch and sell products and services quickly and cost-effectively, without needing to invest in dedicated infrastructure for each product.

To serve our multinational customers we offer our virtual private network (VPN) services. To provide these, we use our MPLS network and a combination of owned and leased fibre connections to interconnect our points of presence (PoPs) around the world. For the final connection into the customers' premises, we either use our own existing circuits, or rent connections from telecoms operators in that country. We also have an extensive satellite network which provides customers with connectivity around the world, including to remote and hard-to-reach locations.

Our global IP Exchange platform (GIPX) continues to do well. Around 400 service providers are connected to it globally and this year we launched a new node serving the Middle East.

In-country networks

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

Our UK fixed-line network is one of our most valuable assets and our investment in fibre broadband is key to delivering modern, superfast services to our customers. To meet the demand from businesses, we are continuing to expand the availability of Ethernet. And when our customers are away from their home or office, they can use one of more than 5m BT Wi-fi hotspots.

Developments this year

This year we have:

improved our UK broadband network at the same time as reducing its running costs. We have made it more resilient to faults and it can now better cater for increases in traffic. And we have continued to extend the reach of our fibre network (see page 73);
engaged with our MVNO partner, EE, to develop new mobile services that allowed BT Consumer to re-enter the mobile market;
been developing the core network systems and radio infrastructure to be able to use our own 4G spectrum. This work focuses on small-cell, in-building solutions;
built the systems that will lay the foundation for the next generation of IP-based communication and future voice services;
rationalised our voice and legacy data networks so we are using less equipment and less energy; and
simplified the technology we use to provide all of our global network services (IP Connect, Ethernet Connect and Internet Connect). By using a single network router, rather than one for each service, we are able to reduce the cost of introducing these services. This has enabled us to offer Ethernet Connect and Internet Connect in eight new countries and 38 new cities on our own network this year.

Service platforms

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

BT Conferencing, which we offer to our customers around the world. BT MeetMe, is our audio conferencing service. It is also available with Dolby Voice for higher quality sound and a better user experience.

BT Cloud Contact, one of our contact centre solutions. For example, this has helped Etihad Airways better serve their customers. Callers from 37 different countries are automatically directed to the right language team, in any one of three global contact centres.

Our BT TV platform, which we have invested further in to support a growing number of customers and to increase the range of services we can deliver. We have added red button interactive features. Our new Extra Box service provides multi-room viewing. And our people have implemented the technology to support our TV Everywhere service, and ensure Chromecast and Netflix services are compatible with BT TV.

IT systems

Our internal IT systems enable us to manage our processes, handle customer information and deliver our products and services. They are critical to serving our customers and running our business.

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

We are making our systems simpler. And we are continuing to innovate. Last year we launched a system to analyse our own Big Data . We have seen the benefits of it this year. It has provided greater insight into potential line faults which has reduced the number of unnecessary engineer visits.

We currently have around 25 petabytes of data storage infrastructure spread across several sites. (If this storage was full of MP3-encoded songs, they would take about 50,000 years to play.) We expect the amount of data that we store to grow. Despite this, we are working on reducing the number of data centres we run, removing older server technology and using fewer IT applications. We are able to do this while increasing our storage capacity by using virtualisation . This increases our data centre utilisation by running many virtual machines on each server.

We are incorporating many innovations into our data centres to improve performance and power efficiency, as well as reduce cost. Developments such as adaptive power management and hot/cold aisle isolation help us to reduce power usage. These and other programmes will help us cut our IT energy use over the coming years.

Properties

We occupy around 6,350 properties in the UK and around 1,730 in the rest of the world. Most of our UK properties are owned by and leased from Telereal Trillium, part of the William Pears group, after we entered into a sale and leaseback arrangement with them in 2001.

Our freehold sites include our main strategic buildings: BT Centre; the BT Tower; and our R&D facility, Adastral Park in Suffolk.

Of our UK properties, 95% are operational, housing telecoms and broadband equipment. The rest are offices, customer contact centres, engineering depots, data centres and our BT Sport TV studio.

Find out more

The reach of our fibre network

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In the UK we continue to drive our programme of disposing of office and operational buildings we no longer need while consolidating office space in the remaining properties. This year we completed the closure of Keybridge House, a former international telephone and telex exchange in London. We sold this surplus building to Mount Anvil for £93m in February 2015 realising a profit of £67m. In addition, we have recognised a £45m charge in specific items for onerous leases as a property rationalisation cost (see page 83).

Outside the UK, 91% of our buildings are operational, housing our hosting and telecoms equipment. The remaining 9% are offices. This year we opened new offices in Gurgaon, Bangalore and Kolkata, as part of our strategy to invest in high-growth regions and support leading global companies. We also closed 25 offices around the world that we no longer need and delivered a net reduction of 14 operational sites, which helped our cost transformation.

Research and development

BT has a long history of innovation, starting from our roots as The Electric Telegraph Company (the world's oldest telecommunications company) in 1846.

For example, in 1926 we held the world's first two-way, trans-Atlantic conversation by radio telephone from our wireless station near Rugby. And in 1943, Tommy Flowers, working in the telecommunications division of the General Post Office, developed the world's first programmable electronic computer, Colossus. In 1968, we installed the world's first digital telephone exchange. And we laid the world's first purpose-designed optical fibre submarine cable in Loch Fyne, Scotland in 1980.

In the 30 years since our privatisation in December 1984, we pioneered many of the technologies that our business now relies on. For example, we were at the forefront of defining the global IP and broadband standards which mean our networks are capable of supporting the advanced video, business and internet services we have today. We were the first company to commercially launch single-mode fibre optics – the technology that underpins today's high-speed networks. And we pioneered a technology that uses compressed air to blow fibre optic cables through conduits, which speeds up network installation.

Innovation, supported by our global research and development (R&D), enables us to offer the new services that customers want, and to find ways of doing things more efficiently and at lower cost. This year we invested £502m (2013/14: £530m) in research and development. We are one of the largest investors in R&D of any company in the UK, and globally in the telecoms sector^a.

Since privatisation we have had over 13,000 patents granted and in 2014/15 we filed patent applications for 93 inventions (2013/14: 89). We routinely seek patent protection in different countries and at 31 March 2015 we had a worldwide portfolio of more than 4,500 patents and applications.

We bring together expertise and resources (both our own and third-party) at our six global development centres. Adastral Park, our technology headquarters, is home to over 65 high-tech companies. It is a world-leading innovation campus, employing around 3,700 people. This year we have continued to grow our development centres in Kuala Lumpur and Bangalore. These give us local technical expertise and spread our development more evenly around the world.

We are keen to work with people outside BT, from small start-up companies to some of the best universities around the world. We have extensive, long-standing, joint-research programmes with Cambridge University (UK), Massachusetts Institute of Technology (US), Tsinghua University (China), Khalifa University (UAE) and over 30 other universities globally. We continue to support a programme of co-innovation with start-ups in London's Tech City. And our teams work with customers and other companies in the US, Asia, Europe and the

Middle East. They help us track the very latest global developments in new technologies, business propositions and market trends.

Our people help us innovate and improve our service to customers. This year our award-winning internal New Ideas Scheme had more than 2,000 submissions. As a result, we have identified more than £30m of benefit through new revenues and lower costs, and it is helping us provide a better service to our customers.

We run innovation showcases for our major customers, where they can discuss applications and solutions with our experts. And we get to hear first-hand what they need.

Under the brand of Ingenious we are sharing BT's innovation story with thought leaders, governments and the media. You can read more about Ingenious on page 35.

Examples of our activities this year include:

Working on how to improve the future 4G mobile experience for our customers through the use of femtocells. These are low-cost, easy-to-install, low-powered devices that could be placed in customers' homes or offices and in some cases offer a viable alternative to traditional mobile masts.

Performing extensive lab evaluations and field trials in the access network. This will help us provide higher broadband speeds even further from the exchange. We have been instrumental in the ratification of the ITU G.fast standard that paves the way for the next generation of ultrafast broadband over copper.

Investigating new ways to deliver TV services over our broadband network. Our trial of Ultra HDTV, streaming the 2014 FIFA World Cup, was a world first.

Focusing on many aspects of customer service, such as increasing the number of quality of experience nodes in the network where we monitor service performance. These help us make sure that services like Netflix, BBC iPlayer and YouTube are performing well on our network.

Examining how we can use our technology in new ways. We are a major partner in MK:Smart, a UK-based Internet of Things (IoT) programme in Milton Keynes. It is addressing the challenge of supporting economic growth without exceeding the capacity of urban infrastructure. For example, by using sensors that assist city centre vehicle parking and reduce traffic congestion.

Brand and reputation

Innovation is an important part of our history and an essential ingredient for our future. It is also key to our brand – one of our most important assets and a vital source of competitive advantage. We believe that well-managed brands drive business performance because they stand out in crowded markets.

^a Comparison based on total R&D spend over 2004/05 to 2013/14. Data taken from EU

Industrial R&D Investment Scoreboard, <http://iri.jrc.ec.europa.eu/scoreboard.html>

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Partnerships continue to be an important part of the way we build our reputation and show our support for good causes.

We were the founding partner of the International Festival for Business which launched in Liverpool in June. A total of 68,600 delegates from 92 countries attended events over the 50-day programme.

We were the first commercial partner of the British Paralympic Association when it was founded in 1989. To celebrate its 25th anniversary we provided a grant to support grassroots disability sports clubs across the UK. We continue to support British Paralympians on their journey to the Rio 2016 Paralympic Games.

We were also an official supporter of the Invictus Games, an international sporting event for wounded, injured or sick servicemen and women. This was held in London in September 2014 and involved over 400 competitors from 13 nations.

Ingenious

In 2014, we ran a programme of events under the theme of **Ingenious**. This included events at high profile locations such as the BT Tower and Adastral Park. We launched the UK's first National Inventors' Day in December. The event was designed to celebrate the UK's rich heritage of invention and inspire the next generation of creative thinkers. It was also a showcase of BT's long history of innovation.

We also became the lead principal sponsor of the new Information Age gallery at the Science Museum in London. The gallery explores how the modern connected world was created through different technology networks such as radio and television broadcasting, the web and mobile communications.

Stakeholders and relationships

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

Our customers

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

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

You can read about our customers and the services we provide them in our lines of business section from page 53.

Communities and society as a whole

The investments we make will play a big part in benefitting society and the environment, proving that it is possible to do good and create business value at the same time.

Last year, we talked about our 2020 ambitions in three focus areas of creating a connected society, supporting charities and communities and delivering environmental benefits. This year we have introduced two additional areas developing a culture of tech literacy and inclusive growth.

Our 2020 ambitions are now:

9 out of 10	9 out of 10 people in the UK will have access to fibre-based products and services.
10m	Help 10m people overcome social disadvantage through the benefits our products and services can bring.
5m	Help 5m children to receive better teaching in computing skills.
£1bn	Help generate more than £1bn for good causes, using our people, their skills and our technology, whilst inspiring two-thirds of our people to volunteer.
3:1	Enable customers to reduce their carbon emissions by at least three times the end-to-end carbon impact of our business.

Creating a connected society

Digital inclusion is a key part of bringing our purpose to life. We are helping people on low incomes, with disabilities or who are elderly, to get online. An example of this is BT Basic, a product created specifically for a low income group. This low-cost product, combined with our digital skills programme (Get IT Together), helps those individuals to make the most of being online.

We share the increasing public concern about protecting children online. Through The Right Click: Internet Safety Matters, our partnership with UNICEF UK, we are delivering 600 online safety workshops across the UK, with BT volunteers providing parents and children with practical advice to keep them safe online. We have also invested in tools and resources to educate children and their families about staying safe while online.

BT Parental Controls is our free, network-based filter that lets families control internet access. In 2014/15 we contacted all our BT Broadband customers to raise awareness of this service.

Developing a culture of tech literacy

Increasingly every aspect of modern life is underpinned by technology. But even though young people grow up surrounded by technology, many of them do not understand the basic concepts of how it works. This could leave them unable to fully participate in society. We want to help build a culture of tech literacy for the nation. We want to inspire young people to move from simply being technology consumers to embracing the role technology can play in their lives, being confident with computational thinking, and aware of the way technology and data underpins our social infrastructure.

For more information on how we deliver both societal and business benefits, please refer to page 90, where we have outlined our progress.

Find out more

Our lines of business on page	Our performance against our 2020 ambitions
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Supporting charities and communities

Our charity partners help millions of people in the UK and worldwide. Our communications technology can help them raise money quickly and function more efficiently, so they can focus on what they do best.

MyDonate is our commission-free online giving platform which underpins our fundraising and community support. We have supported various fundraising activities this year including Cancer UK's Stand Up 2 Cancer telethon, Children in Need and Red Nose Day. We have also supported Disasters Emergency Committee appeals for Syria, the Philippines, Gaza and the Ebola Crisis – all using our MyDonate fundraising platform. In total, all these activities raised £30m this year.

We do not just support large scale telethons, but also smaller charities and individual fundraisers too – with over £21m being raised using MyDonate. We are investing in new technologies and extending the reach of MyDonate, as it is key to helping us deliver our £1bn 2020 goal.

The Supporters Club is our collaboration with our long-standing charity partner, Comic Relief. It aims to build a better world by bringing people together through sport. We provide grants to support charities and community sport foundations, to use sport as a vehicle for change in young people's lives. BT Sport customers can make monthly donations of £1, £3 or £5 through their bill.

Increasing our customers' sense of connection with The Supporters Club, and increasing donations, was a key priority in the year. To encourage more people to get involved, we included short films as part of our coverage of live sporting events which showed The Supporters Club is making a difference. Customer donations have raised £1.8m this year, with over 26 projects currently being funded, both in the UK and around the world.

Delivering environmental benefits

We serve some of the biggest companies in the world, so helping them reduce carbon emissions can have a global impact. Many of them are sustainability leaders themselves. And more and more of our customers want to know how our products can contribute to their own sustainability commitments.

We lead by example as we are reducing our own environmental impact and minimising waste, and are working with our suppliers to help them do the same. We have an integrated approach to cost reduction and carbon abatement – many of our solutions directly reduce our customers' carbon emissions, save money and use fewer resources. For example, our conferencing facilities reduce the need for travel.

Our shareholders

We have around 900,000 separate shareholders. Over 20% of them have held shares since BT was privatised 30 years ago. As well as the Annual Report and Annual General Meeting, we keep our shareholders up to date with how we are doing through regular mailings. These often include offers on our products and services that are only available to shareholders. Our website includes press releases, newsletters, presentations and webcasts that can also keep our shareholders informed.

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

reporting quarterly results, accompanied by a conference call or presentation from senior management; regular teach-ins on key topics (for example this year we covered regulation and cost transformation); and meetings and conference calls with investors both in the UK and around the world.

In 2014/15, we held 369 meetings or events with institutional investors. This compares with 421 in 2013/14 and 259 in 2012/13.

We were voted the best company for investor relations in England in the Extel Survey 2014. Across Europe, we were voted the second best in the telecommunications sector.

Our lenders

Our relationships with our lenders, mainly banking institutions and bond holders, play an important role in our treasury and funding strategy. These relationships are vital for funding the business and meeting our liquidity requirements (see page 85).

Our pension schemes

We operate defined benefit and defined contribution pension schemes. The largest is the BT Pension Scheme (BTPS) which has 306,500 members. You can read more about it on page 89.

Our suppliers

Our suppliers from across the world play a vital role in helping us to provide our products and services and deliver our strategy. We spent £9.4bn with our suppliers this year (2013/14: £9.8bn). The top 100 represent around 61% of our annual spend.

The mix of our suppliers continues to evolve as we move into new markets, such as televised sport and mobility.

Our approach to procurement

We have around 320 people in 26 countries working with suppliers to deliver our procurement strategy.

We want to get the most from our suppliers especially from their diversity, skills and innovation.

As part of our cost transformation programmes, we have concentrated on making the most of our relationships with our largest suppliers to get even better value.

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This year we introduced our Purchase Order intercept programme. This involves reviewing all purchase orders to make sure that we are optimising our spend across BT. The new Central Business Services centre (see page 23) is supporting our procurement division and is growing in numbers to support this programme.

We are continuing to review our supply base and have deactivated around 3,300 suppliers from our procurement systems in the last 12 months. Our supply base now includes new categories of suppliers to support our new markets.

During the year we launched the Procurement Profession, part of the Academy (see page 31). This is helping to improve the skills of our people. Our ambition is to have all of our buyers accredited and licensed. And for a few of our expert practitioners to be recognised externally as fellows of the Chartered Institute of Procurement and Supply (CIPS). Currently we have two practitioners who are fellows of CIPS.

Choosing our suppliers

It is important to us that we know who we are doing business with and who is acting on our behalf. So we:

- choose suppliers using an established set of principles which seeks to make sure both we and the supplier act ethically and responsibly;
- check that the goods and services we buy are made, delivered and disposed of in a socially and environmentally responsible way; and
- measure factors such as a supplier's energy use, environmental impact and labour standards.

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

Labour standards in our supply chain

We want our suppliers' employees to experience working conditions that meet the standards we have developed. We send our suppliers an ethical standards questionnaire. Based on their responses, we follow up with any suppliers identified as high or medium risk. This year we met 96% of our target to achieve 100% follow-up within three months.

We also visit supplier sites to make sure they meet our standards. This year we visited 47 sites (2013/14: 54 sites) around the world.

Number of on-site supplier assessments

Year ended 31 March

2013	49
2014	54
2015	47

To comply with the Dodd-Frank Act and our Securities and Exchange Commission (SEC) obligations, we asked certain suppliers whether their products contain certain minerals which may have been sourced from conflict areas such as the Democratic Republic of the Congo. In June 2014 we filed the required report covering 2013 with the SEC which described our due diligence and reflected the responses we received. We will file the report for 2014 in June 2015.

Paying our suppliers

This year the average number of days between invoice date and supplier payment was 60 days (2013/14: 62 days).

Suppliers can choose to use the BT Supplier Finance scheme. It offers contracted suppliers the chance to be paid early which reduces their financing costs. We introduced it in September 2013 and it is now one of the largest supplier finance schemes in the UK, supporting over £1.2bn of spend annually.

You can find out more about the BT Supplier Finance scheme at www.selling2bt.bt.com/Payment/SupplierFinance/

It is particularly attractive for SMEs (who make up around 50% of our supply base) and it supports UK Government initiatives to encourage small business growth. We also follow the Better Payment Practice Code set up by the Government in partnership with business organisations across the UK.

You can find out more about the Better Payment Practice Code at www.payontime.co.uk

Human rights

As a provider of communications services across the world, we could impact the human rights of our employees, workers in our supply chain, customers and communities in a number of different ways.

Our statement of business practice, *The Way We Work*, sets out our commitment to respecting human rights. It gives employees, suppliers and anyone working on behalf of BT guidance on how we expect them to behave.

We believe the areas that could be most affected by our business are the human rights to privacy and freedom of expression. Our policies on privacy, security, anti-corruption and bribery, diversity, inclusion, health, safety, wellbeing, conflict minerals and sourcing with human dignity help mitigate risks in these and other relevant areas.

In last year's Annual Report we said we would carry out a Board-level review of our human rights policy and further develop our compliance framework. We have now completed this review. We assessed our operations in the UK

against stakeholder expectations on how businesses should respect human rights. We have taken advice from both a leading law firm and a global, non-profit human rights consultancy.

The review showed that we have strong processes to manage human rights impacts arising with our employees, such as highly developed diversity and wellbeing measures. We also have a clear approach to freedom of expression, based on our belief that our customers should have the choice, whenever possible, to access the services and content they want. The review did identify opportunities to strengthen our human rights policy and governance, and to be more transparent about our operations and interactions with government.

Our *Operating Committee* and Board considered the recommendations and have approved an implementation programme to further enhance our approach to human rights. This programme will begin later in 2015. We have established a human rights steering group to achieve this. It is sponsored by the *Operating Committee* and will have broad representation across our key functions and lines of business. More information can be found at www.bt.com/deliveringourpurpose

Find out more

The Academy	BT Supplier Policy www.selling2bt.bt.com	BT Supplier Finance Scheme www.selling2bt.bt.com/ Payment/SupplierFinance/	Better Payment Practice Code www.payontime.co.uk
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Our relationship with HM Government

We are the largest supplier of networked IT services to the UK public sector. We work with more than 1,300 organisations across central, local and devolved government, healthcare, police and defence to provide some of the UK's most vital services. For example, we run N3, the National Health Service's secure national network. We provide telecommunications services to the Ministry of Defence. And we have recently started working with the Welsh Government to operate the Wales-wide public sector broadband network and with Devon and Cornwall Police to provide their IT services.

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

Regulation

In our markets in the UK and around the world, communications and TV services are regulated by governmental and non-governmental bodies. This is to make sure that CPs and broadcasters abide by common standards and rules, and that nobody is disadvantaged by those providers with strong positions in their markets. Below we explain the regulatory framework and some of the recent and upcoming decisions taken by regulators and how they affect us.

European Union (EU) regulation

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

The directives include rules covering access and interconnection, universal service obligations and a requirement for national regulators to review markets for significant market power (SMP) every three years. Companies with SMP typically have a market share of 40% or more and are able to do things such as increase prices without losing business to competitors (as would happen in a fully competitive market).

The directives also cover how regulators set price controls which can have a major impact on the companies subject to them. The rules require national regulators to consult with the EC on any price control decisions before they are finalised to make sure they are consistent with European regulations.

The EC announced its strategy for the Digital Single Market on 6 May 2015 which included a plan to review the EU Telecommunications Framework. As part of this review, the EC aims to assess how to encourage investment in infrastructure and how to make current telecoms and media rules fit for new challenges and new providers. The EC will also consider a European approach to spectrum management.

UK regulation

The telecoms and broadcasting industries are regulated primarily by Ofcom (the UK's independent regulator) within the framework set by the various European directives, the Communications Act and other UK and EU regulations and recommendations. The telecoms sector is subject to an extensive ex-ante regulatory framework set out under the European Common Regulatory Framework whereas broadcasting and pay-TV is only subject to a mixture of separate, specific regulation and general competition law.

The Communications Act and Ofcom

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

Ofcom's main duties are:

- to further the interests of citizens in relation to communications matters; and

- to further the interests of consumers in relevant markets, where appropriate by promoting competition.

Under the powers of the Communications Act, Ofcom sets conditions that CPs must comply with. Some conditions, known as General Conditions, apply to all CPs. These mainly deal with protecting consumers' general access and interconnection, planning for emergencies, providing information to Ofcom and allocating and transferring phone numbers. Other conditions apply to certain companies that are universal service providers or that Ofcom has decided have SMP in a particular market.

We are the designated universal service provider for the UK (except for the Hull area where it is KCOM Group) and so we have certain obligations. The main one is to make sure that basic fixed-line services are available at an affordable price to all consumers in the UK. We are also obliged to provide public payphones.

We have SMP in a number of markets including Business Connectivity (eg Ethernet, backhaul), Fixed Access (eg LLU, GEA, WLR) and Wholesale Narrowband (eg Call Origination). Ofcom's market reviews are therefore very important for us. Following a market review, if Ofcom decides that a CP has SMP, it can put controls in place, typically on the prices which the CP can charge. Ofcom will generally try to set charges that are reasonably based on costs and an appropriate return on the capital invested.

Anyone can appeal against Ofcom's decisions through a number of routes, including to the Competition Appeal Tribunal (CAT) or to the High Court.

In March 2015, Ofcom announced a major review of the digital communications market. The Strategic Review of Digital Communications will examine competition, investment, innovation and the availability of products in the fixed-line, broadband and mobile markets. It will focus on three areas in particular:

- ensuring the right incentives for private-sector investment, which can help deliver availability and quality of service;

maintaining strong competition and tackling obstacles or bottlenecks that might be holding the sector back; and identifying whether there is scope for deregulation in some areas.

The first phase of the review will examine current and future market factors that may affect digital communications services, and current regulatory approaches. To inform this work, Ofcom intends to engage with a wide range of stakeholders including industry, consumer groups, the UK Government and devolved administrations through meetings and workshops. This phase of the review is expected to conclude with a discussion document in summer 2015.

BT's Undertakings

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

Overseas regulation

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

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

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Impact of regulation

There were a number of regulatory decisions and outcomes of appeals that affected us during the year and will impact us in the future.

Fixed Access and Wholesale Broadband Access Market Reviews	<p>In June 2014, Ofcom completed its reviews of both the Fixed Access market (covering WLR, LLU, GEA, ISDN 2 and ISDN 30 products) and the Wholesale Broadband Access (WBA) market (covering IPstream, Datastream and WBC).</p> <p>Ofcom continued to impose charge controls on the markets where we have SMP. These controls cover the three years to March 2017.</p>	<p>During this period, the artificially low price of full LLU will be phased out to better reflect the actual costs of providing the service to CPs.</p> <p>Ofcom did not impose price regulation of wholesale fibre broadband (GEA).</p> <p>For WBA, Ofcom enlarged the size of the area where competition is greater and where we are free to set prices as we wish.</p>
Fibre broadband margin	<p>In May 2013, Ofcom opened an investigation following a complaint which alleged that BT has abused its dominant position, such that the margin between the prices BT Consumer charges for some of its fibre broadband products, and the wholesale price charged by Openreach for the relevant network inputs, is insufficient to allow other CPs to compete profitably.</p> <p>In October 2014, Ofcom closed the investigation having found no grounds for taking any action.</p>	<p>Separately in June 2014, Ofcom consulted on proposals for an ex-ante margin squeeze test. Ofcom issued its final statement in March 2015. Ofcom's indicative assessment was that we were likely to be making a sufficient margin to pass the test.</p> <p>We are required to submit to Ofcom a formal margin test report demonstrating compliance before the end of May 2015 and then every six months.</p> <p>We believe the design of the test is flawed and are considering our options, including an appeal.</p>
Ladder pricing	<p>Ladder pricing links the level of BT Wholesale termination charges for hosting non-geographic numbers (such as 0800, 0845 numbers) to the</p>	<p>In July 2014 we won an appeal to the Supreme Court that means that MNOs must pay BT outstanding charges for the period</p>

retail call prices charged by mobile network operators (MNOs) to their customers for calling such numbers.

Our ladder pricing policy was disputed by the MNOs. The CAT found in our favour in August 2011, but this was overturned by the Court of Appeal in July 2012.

starting prior to the CAT judgment in August 2011. BT has now reached financial settlements with all the MNOs.

We also raised ladder charges in relation to other number ranges which had also been disputed. These were heard at the CAT in February 2015. BT and all the MNOs have now reached financial settlements in relation to those charges.

Pay-TV

In June 2010, Sky appealed to the CAT against Ofcom's decision to regulate Sky Sports 1 and 2.

In August 2012, the CAT decided in Sky's favour. We successfully appealed the CAT's decision and in February 2014, the Court of Appeal published its judgment that the CAT must now reconsider the case.

Sky requested permission to appeal the Court of Appeal judgment at the Supreme Court. This was rejected by the Supreme Court in October 2014.

In November 2014, the CAT ruled that Sky must supply Sky Sports 1 and 2 to BT on IPTV on an interim basis until it has concluded its review of the case. (Sky Sports 1 and 2 continue to be provided on Digital Terrestrial TV).

This allowed us to offer Sky Sports 1 and 2 to our customers on our YouView set-top box.

In March, the CAT held a hearing about which panel should hear the case. In May, the chairman of the panel decided to recuse himself from hearing the appeal, and a new chair will need to be appointed. The CAT will also need to determine the process for reconsidering the case, as required by the Court of Appeal.

In November 2014, following a complaint by Virgin Media, Ofcom opened an investigation under the Competition Act 1998 and the Treaty on the Functioning of the European Union into the joint-selling arrangements of live UK broadcast rights for FA Premier League football matches.

Ofcom has consulted interested parties, including BT, and is currently in an information-gathering stage.

Ethernet dispute appeal

In December 2012, Ofcom issued final determinations on disputes over historic Ethernet pricing. Ofcom concluded that between April 2006 and March 2011 the prices we set for certain Ethernet services were too high, resulting in an overcharge of £151m over this period. We disagree with the determinations and both BT and the affected CPs appealed various points to the CAT.

In August 2014 the CAT handed down its judgment that rejected BT's appeal against the amount of the overcharge and judged that BT should also pay interest on this amount. This matter has been referred to Ofcom.

We disagree with the CAT's judgment and have applied for permission to appeal to the Court of Appeal.

Business Connectivity Market Review	<p>During the year Ofcom began its pre-consultation process ahead of reviewing the business connectivity markets and the associated leased line charge control.</p> <p>We expect the first round of consultations in spring 2015 with the new regulations applying from April 2016.</p>	<p>Ofcom's review will consider, amongst other things, the merits of introducing a new passive dark fibre remedy as well as the scope for further deregulation, reflecting an increasingly competitive market.</p>
Wholesale Narrowband Market Review	<p>In April 2015, Ofcom issued a call for inputs being the first stage in its review of the wholesale fixed call origination, termination and interconnection markets.</p>	<p>The review will consider whether regulation of call origination is still appropriate and whether further charge controls are required when the current controls end in September 2016.</p>

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Natural resources

As well as trying to minimise our use of precious natural resources, we are also maintaining our focus on reducing our waste.

We try to reduce the amount of materials we use in our operations, and to reuse them rather than dispose of them. Many of our waste materials can be turned into resources and redirected back into the supply chain.

We use a number of specialist contractors to recycle materials that we cannot reuse. These include cables, network equipment, wood and other mixed recycling such as paper and cardboard. For hazardous waste materials such as batteries, fluorescent light tubes and oil, we use specialist contractors who make sure the waste is recycled and managed according to legislation. We have around 2,000 sites which each produce more than 500kg of hazardous waste a year. They are registered with the appropriate UK environmental authority.

Water usage

Most of the water we use is used in washrooms and catering facilities at our offices. We also use water to cool equipment at our offices and telephone exchanges. This year we began a programme to install water meters at sites that together account for half of our total water use in the UK. The new meters provide half-hourly water measurements, giving us a more accurate understanding of how we use water and helping us spot leaks more quickly. This will help us identify where we can save water and we estimate this alone will help us cut our water use by 2% in 2015/16.

Energy use and carbon footprint

BT TSO is responsible for managing the group's energy consumption and for putting strategies in place to cut our carbon footprint.

We have signed long-term Power Purchase Agreements with wind and solar farms. These will provide 16% of our electricity needs in Great Britain from next year. One contract connects a large solar farm to our R&D facility at Adastral Park. We believe this is the largest arrangement of its kind in the UK and will provide up to 75% of the electricity needed by the Park on sunny days.

In Great Britain we spent around £306m on energy and fuel this year (2013/14: £296m), the increase from last year reflects higher energy prices. We estimate our energy savings programme delivered a 3.2% reduction in consumption and is expected to generate over £36m in annualised cost savings. This is the sixth consecutive year that we have achieved a reduction and takes the total savings calculated on this basis to £168m.

^a We have restated our worldwide energy consumption and GHG emission figures for previous years following improvements to our data. Previous estimates of energy usage have been updated with measured figures.

To track our carbon emissions, we report two CO₂ equivalent (CO₂e) intensity measures:

Since 2008, we have had an ambitious carbon emissions reduction target linked to our economic contribution to GDP. This year we reduced our worldwide net carbon emissions per unit of value added (our contribution to GDP) by 79% compared with 1996/97.

To help benchmark our performance against other organisations, we also report our intensity as net emissions (scopes 1 & 2) per unit of revenue. Our figure of 13.6 tonnes CO₂e per £ million of revenue reflects an 84% reduction since 1996/97.

We report all of the greenhouse gas (GHG) emission sources required under UK regulations. We have used the GHG Protocol Corporate Accounting and Reporting Standard with UK Government GHG Conversion Factors for Company Reporting 2014 and International Energy Agency Conversion Factors. The chart below reports our GHG emissions and defines scopes 1, 2 and 3. We reduced our total worldwide net CO₂e emissions by 1.4% this year.

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Our risks

Like all businesses, we are affected by a number of risks and uncertainties. These may be impacted by internal and external factors, some of which we cannot control. Many of our risks are similar to those felt by comparable companies in terms of scale and operation.

Principal risks and uncertainties

In this section we explain some of the principal risks and uncertainties affecting us. These risks have the potential to impact our business, brand, people, assets, revenue, profits, liquidity or capital resources. The principal risks we described last year have evolved, and so too has our response to them.

Our Enterprise Risk Management framework provides reasonable (but cannot give absolute) assurance that significant risks are identified and addressed. There may be some risks which are unknown to us at present. And there may be some that we consider less significant now but become more important later.

External factors can present both risks and opportunities, to our business and to others. We focus our efforts on predicting and mitigating the risks, while at the same time seeking to capitalise on opportunities that may emerge.

We recognise the particular uncertainty that political and geo-political risks present, both in the UK (for example the Scottish independence referendum in 2014) and globally. We now monitor these through a separate sub-committee of our Group Risk Panel.

In the principal risks section below, we talk about what we are doing to stop our main risks materialising, or to limit their impact. Our principal risks and uncertainties should be considered along with the risk management process, the forward-looking statements in this document and the cautionary statement regarding forward-looking statements, which you can read on page 209.

How we manage risk

We need to manage risk so we can meet our objectives, build shareholder value and promote our stakeholders interests. We have a group-wide risk management process, and we show its four stages below.

Changes over the year

In 2013/14 we improved the way we manage risk through enhancing our risk management training, formalising the linkage between our investments and our principal risks and proactively assessing emerging risks. This year we made further improvements including:

Project and programme risk management

We developed an enhanced risk management policy, process and toolkit to provide guidance to colleagues managing risk in projects and programmes. This was supported by additional training for our project management community.

Risk appetite

Risk appetite (the nature and extent of the risks we are prepared to take) has been reviewed by both the Board and the *Operating Committee* this year. We have also progressed this work in our lines of business, for example using risk appetite to help determine the relative criticality of different IT systems.

Risk culture

Aligning with our organisational health programme, we have identified opportunities to build into the behaviours being embedded into our business, a culture that positively supports active and open risk management.

Enterprise Risk Management framework

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Annual Report 2015**Our principal risks**

Risk description	Impact	Link to strategy
<p data-bbox="97 821 395 861">Security and resilience</p> <p data-bbox="97 905 679 1079">The resilience of our IT systems, networks and associated infrastructure, including our core data centres and exchanges, is essential to our short and long-term commercial success.</p> <p data-bbox="97 1184 679 1535">We face a variety of hazards that could cause significant interruptions to the delivery of our services. These include component failure, physical attack, theft of copper cable and equipment, fire, explosion, flood, power failure, overheating or extreme cold, problems encountered during upgrades and major changes, and the failure of key suppliers. A cyber security incident or logical attack could also trigger service interruption.</p> <p data-bbox="97 1640 679 1852">We also have a responsibility to many millions of customers, both business and consumer, to ensure their electronic information remains confidential, accurate, secure and available. The same holds true for our own data, information and intellectual property.</p>	<p data-bbox="703 905 1238 1360">A breach of our security, or compromise of data or resilience affecting our operations, or those of our customers, could lead to an extended interruption to our services or even affect national infrastructure. The impact of such a failure could include: immediate financial losses due to fraud and theft; termination of contracts; immediate loss of revenue where orders and invoices cannot be processed; contractual penalties; lost productivity and unplanned costs of restoration and improvement; prosecution; and fines.</p> <p data-bbox="703 1465 1238 1680">Additionally, reputational damage may arise, undermining market confidence and jeopardising future revenues. Ultimately the welfare of individuals might be put at risk where services cannot be provided or personal data is misappropriated.</p>	<p data-bbox="1273 905 1505 974">Deliver superior customer service</p>

Major contracts

We have a number of complex and high-value national and multinational customer contracts.

The revenue arising from, and the profitability of, these contracts are subject to a number of factors including: variation in cost; achievement of cost reductions anticipated in the contract pricing, both in terms of scale and time; delays in the delivery or achievement of agreed milestones owing to factors either within or outside of our control; changes in customers requirements, their budgets, strategies or businesses; and the performance of our suppliers. Any of these factors could make a contract less profitable or even loss-making.

The degree of risk generally varies with the scope and life of the contract and is typically higher in the early stages of the contract. Some customer contracts require investment in the early stages, which is expected to be recovered over the life of the contract.

Major contracts often involve the implementation of new systems and communications networks, transformation of legacy networks and the development of new technologies.

The recoverability of these upfront costs may be impacted by delays or failure to meet milestones. Substantial performance risk exists in some of these highly complex contracts.

Failure to manage and meet our commitments under these contracts, as well as changes in customers requirements, their budgets, strategies or businesses, may lead to a reduction in our expected future revenue, profitability and cash generation. Unexpectedly high costs associated with the delivery of particular transformational contracts could also negatively impact profitability.

Earnings may be reduced or contracts may even become loss-making through loss of revenue, changes to customers businesses, business failure or contract termination. Failure to replace the revenue and earnings lost from these customers could lead to an overall reduction in group revenue, profitability and cash flow.

Deliver superior customer service

Transform our costs

Invest for growth

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Trend indicates management's perception of how the pre-mitigation risk has moved year on year	Pre-mitigation risk is increasing/worsening	Pre-mitigation risk is at a similar level	Pre-mitigation risk is lessening/improving
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Changes over the last year

In the past year we have had to deal with an unprecedented increase in the volume and intensity of cyber attacks. We recorded more top priority incidents in the last three months of 2014 than were experienced in the previous two years. The attacks were aimed not just at BT, but also at our customers, with the potential to disrupt others and cause collateral damage to BT services.

Following a comprehensive review of the resilience and disaster recovery capability of our critical systems, databases and exchanges, we have invested in enhancing site resilience based on our target levels of acceptable risk. We have also invested significantly in geo-resilience (ie cross-site recovery) for our critical systems where this did not previously exist, and have already seen a return on this investment through seamless failover and continuity of service during planned and, occasionally, unplanned outages.

Risk mitigation

We manage the risk of service interruption through a robust control framework that focuses first and foremost on prevention, supported by tried-and-tested recovery capabilities. We have also undertaken a large-scale estate resilience programme during the year, through which we have continued to invest in developing our resilience and recovery capabilities in instances where the risk has been shown to exceed acceptable levels for us. We have a rolling programme of major incident simulations to test and refine our crisis management procedures. An intensive focus on controlling the volume of network changes has also reduced the number of incidents.

The replacement of equipment that is approaching the end of its service life has provided opportunities to invest in new, more resilient facilities. We also benefit from having geographically-distributed locations that support cross-site recovery, avoiding the need to invest in new sites just for this purpose.

Our security strategy aims to prevent, deter and minimise the consequences of attacks. Our defences include physical protection of our assets, encryption of data, control of access rights, real-time analysis and sharing of intelligence, and continuous monitoring for intrusion, modifications and anomalies. We can rapidly adjust firewalls to automatically block most malicious data traffic. These measures combine to reduce the likelihood of

a major incident and help ensure that interruption or damage can be contained and dealt with promptly and effectively.

In response to the increased cyber threat, we have strengthened our defences, invested in new tools, techniques and skills to monitor threats, and increased our capacity to deal with attacks. We have also started a major programme to restructure our IT estate to make it quicker and easier to manage the incidents when they occur.

Tough market conditions and competitive pressures continue in many global regions while in some we are experiencing higher growth in volume of business due to previous investments we have made. The risk landscape changes accordingly, as does our focus of risk support and review.

Of particular note this year has been the number of broadband contracts with local authorities through the BDUK programme now entering the delivery phase of the contract lifecycle. While these contracts carry a different risk profile, we apply our established risk governance and reporting processes to ensure that risks and mitigation activities are identified and reported to management.

Our group-wide risk governance and reporting, along with line of business local governance and risk management processes, provide the visibility of key risk and mitigation activities. Assurance is provided via independent audits and at an individual contract level through an independent review programme based on multiple selection criteria or by senior management request. Progress on risks and mitigation actions agreed at these independent reviews are monitored and reported to relevant senior managers to ensure progress can be tracked. A separate, dedicated team provides assurance over our BDUK programme.

We have skills development programmes to enhance the ability of our people to identify and manage risk and to make sure learning from previous experience is included in training materials. The scope and availability of training opportunities continue to grow in line with BT-wide learning and development initiatives.

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Risk description	Impact	Link to strategy
Pensions		
<p>We have a significant funding obligation in relation to our defined benefit pension scheme in the UK, the BT Pension Scheme (BTPS or Scheme).</p> <p>The BTPS faces similar risks to other defined benefit schemes. Future low investment returns, lower interest rates, high inflation, longer life expectancy and regulatory changes may all result in the cost of funding the BTPS becoming a more significant burden on our financial resources.</p>	<p>The next valuation of the BTPS is scheduled to take place as at 30 June 2017 and an increase in the pension deficit may have an impact on the level of deficit payments we are required to make into the Scheme. Indirectly it may also have an adverse impact on our share price and credit rating.</p> <p>Any deterioration in our credit rating would increase our cost of borrowing and may limit the availability or flexibility of future funding for the group, thereby affecting our ability to invest, pay dividends or repay debt as it matures.</p>	<p>Transform our costs</p>
Growth in a competitive market		
<p>We operate in markets which are characterised by: high levels of change; strong and new competition; declining prices and, in some markets, declining revenues; technology substitution; market and product convergence; customer churn; and regulatory intervention to promote competition and reduce wholesale prices.</p>	<p>Failure to achieve sustainable, profitable revenue growth could erode our competitive position and reduce our profitability, cash flow and ability to invest for the future.</p>	<p>Invest for growth</p>

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Changes over the last year

The actuarial valuation of the Scheme as at 30 June 2014 was announced on 30 January 2015. This has provided certainty over the level of cash contributions required until the next triennial valuation is concluded. When a valuation is calculated, the funding position is affected by the financial market conditions at the valuation date.

When determining expected future returns on the Scheme assets, different factors are taken into account, including yields (or returns) on government bonds, which have fallen significantly since 30 June 2014. If a lower investment return assumption is adopted at the 30 June 2017 valuation, the liabilities would likely increase, potentially leading to a higher level of deficit payments.

The BTPS entered into longevity insurance and reinsurance arrangements on 4 July 2014 to help protect the Scheme against costs associated with potential increases in life expectancy. These arrangements covered approximately 25% of the Scheme's total exposure to increases in longevity.

On 16 July 2014 the Court of Appeal handed down its judgment on the scope and extent of the Crown Guarantee, which was granted by the Government on BT's privatisation. This judgment has provided welcome clarity although the Crown Guarantee is not taken into account for the purposes of the actuarial valuation of the Scheme and is an entirely separate

Risk mitigation

The investment performance and liability experience, as well as the associated risks and any mitigation, are regularly reviewed and monitored by both us and the BTPS Trustee. The BTPS has a well-diversified investment strategy, which reduces the impact of adverse movements in the value of individual asset classes and helps ensure that an efficient balance of risk and return is maintained.

Our financial strength and cash generation provide a level of protection against future variations in the funding position of the BTPS. The funding liabilities also include some buffer against future negative experience, as legislation requires that liabilities are calculated on a prudent basis.

matter, only being relevant in the highly unlikely event that BT became insolvent.

The UK economy grew by 3% in 2014 however, customers are cautious with their spending. Price and value for money remain the main decision drivers for many consumers and small businesses. At a global level, continuing economic uncertainty remains a factor causing corporate customers to delay or downscale infrastructure upgrades and significant investment decisions.

Competition in our markets is strong. In the UK, new providers of fibre to the premises are entering the fibre access market, offering alternatives to the Virgin Media and Openreach networks. In the TV and content markets, TV viewing habits are changing with the increasing use of on-demand viewing via over-the-top content services providers.

Fixed-mobile convergence is a trend visible in many Continental European countries and increasingly in UK markets. A number of providers are competing in this space. BT's proposed acquisition of EE may stimulate other operators to react to fixed-mobile convergence provided the UK market develops in this way.

Our mitigation of this risk centres on successfully executing our strategy. We believe that delivering this strategy, with its focus on broadening and deepening our customer relationships, delivering superior customer service, transforming our costs and investing for growth, will together help us deliver sustainable, profitable revenue growth. We are investing in our business, in areas such as fibre, TV/content, voice/mobility, UK business markets and through our focus on global companies. Our extensive cost transformation programmes continue to deliver savings and will support profitability trends.

We also believe we can mitigate this risk by seeking changes in regulation to level the playing field so that we can compete effectively in adjacent markets for the benefit of our customers.

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Risk description	Impact	Link to strategy
Communications industry regulation		
Regulation impacts our activities across all jurisdictions.	Regulatory requirements and constraints can directly impact our ability to compete effectively and earn revenues.	<p>Deliver superior customer service</p> <p>Transform our costs</p>
<p>In the UK, Ofcom can require us to provide specific wholesale services on specified terms following market reviews. The scope and form of that regulation is reviewed every three years and can include controls on the level of prices we can charge for regulated inputs. It has powers to investigate and enforce the regulatory rules in place and can impose fines on us for non-compliance. Ofcom also has powers to regulate the terms on which we are supplied with certain services – for instance, mobile call termination and wholesale access to certain pay-TV channels – and this impacts our costs and the scope of services we are able to provide to our customers. Ofcom can also resolve disputes between BT and other communications providers about the terms on which services are supplied.</p>	<p>Regulatory impacts are highest in the UK where BT is subject to direct regulation in a number of areas following periodic market reviews. Based on the latest Regulatory Financial Statements for 2013/14, around £5.2bn of our revenue (of which £2.8bn is to downstream parts of BT) is from wholesale markets where we have been found to have Significant Market Power following market reviews. Most of these revenues are subject to charge controls which require us to reduce our prices annually by a defined percentage in real terms. Controls are usually set for three years and will constrain revenues during that period.</p>	
<p>Outside the UK, general licensing requirements can restrict the extent to which we can enter markets and compete. Regulation will also define the terms on which we can purchase key wholesale services from others.</p>	<p>When other CPs ask Ofcom to resolve disputes with us, there is a risk that Ofcom may set the prices at which services must be supplied and/or require us to provide specific services. In certain circumstances, Ofcom can adjust historic prices and require us to make repayments to CPs.</p>	

Regulation outside the UK can impact (i) our revenue, by limiting our ability to compete through overly-restrictive licensing requirements or ineffective regulation of access to other networks and (ii) our costs, by defining and controlling the terms of access to necessary regulated inputs.

Business integrity and ethics

We are committed to maintaining high standards of ethical behaviour, and have a zero tolerance approach to bribery and corruption.

We have to comply with a wide range of local and international anti-corruption and bribery laws. In particular the UK Bribery Act and US Foreign and Corrupt Practices Act (FCPA) provide comprehensive anti-bribery legislation. Both have extraterritorial reach and so cover our global operations. As we expand globally, we are increasingly operating in countries identified as having a higher risk of bribery and corruption. We also have to ensure compliance with trade sanctions, and import and export controls.

Failure by our employees, or associated persons such as suppliers or agents to comply with anti-corruption and bribery and sanctions legislation could result in substantial penalties, criminal prosecution and significant damage to our reputation. This could in turn impact our future revenue and cash flow, the extent of which would depend on the nature of the breach, the legislation concerned and any associated penalties. Allegations of corruption or bribery or violation of sanctions regulations could also lead to reputation and brand damage with investors, regulators and customers.

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Changes over the last year

Over the last year, we have seen regulatory activity in a number of areas which are summarised in **Regulation** on pages 38 and 39.

Risk mitigation

We have a team of regulatory specialists (including economists and accountants) who, together with legal experts and external advisers, continuously monitor and review the scope for changes in the regulatory rule set and potential disputes with other CPs. This team maintains an ongoing dialogue with regulators and other key influencers to understand the regulatory outlook and to ensure our positions are understood. We push for fair, proportionate, consistent and evidenced-based regulation across markets and jurisdictions. We actively engage in supplying evidence and analysis for all market reviews, charge controls and disputes/investigations to manage the risks arising from specific decisions in any given year.

We are also able to appeal any regulatory decisions where we believe errors have been made. We will also raise disputes and complaints under the relevant regulatory framework or competition law where we face problems gaining access to wholesale services such as access to other networks or to wholesale pay-TV channels.

The importance of conducting business ethically is becoming increasingly recognised across the globe as more countries pass anti-corruption and bribery legislation. In the UK, deferred prosecution agreements are available to the UK Serious Fraud Office for fraud, bribery and other economic crime.

We have a number of controls in place to address risk in this area. These include a comprehensive anti-corruption and bribery programme, and *The Way We Work*, which is our statement of business practice and which is available in 14 languages. We ask all BT employees to sign up to

In terms of enforcement, there are yet to be any significant cases resulting from the UK Bribery Act, but there continue to be many significant enforcement actions brought under the FCPA.

its principles and our anti-corruption and bribery policy. We have specific policies covering gifts and hospitality and charitable donations and sponsorship. We run a training programme with a particular focus on roles such as those in procurement and sales.

We regularly assess our business integrity risks to make sure that the appropriate mitigation is in place.

Speak Up is our confidential hotline, which is operated by an external third party with all reports passed to the Director of Ethics and Compliance for review and investigation. Our internal audit team regularly runs checks on our business. We also use external providers to carry out assessments in areas we believe to be higher risk, to ensure our policies are understood and the controls are functioning. We selectively conduct due diligence checks on third parties including suppliers, agents, resellers and distributors. Our procurement contracts include anti-corruption and bribery clauses.

We have implemented a policy to adhere to applicable sanctions and export control laws. The policy requires approval on all contract bids involving a country where sanctions are imposed by the EU or the US. The policy also mandates that our internal shipping system is used to arrange all international exports. The system conducts compliance checks and flags any orders which require an export licence.

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Risk description	Impact	Link to strategy
Supply chain		
<p>We operate in a global supply market. This enables us to procure third-party products and services that help us deliver to our customers wherever they are. There are often several links in the chain of supply of a product or service to us. The integrity and continuity of this supply chain is critical to our operations and therefore a significant risk to our business.</p>	<p>While the size of the impact from a supplier failure can vary, all supplier failures typically result in an increased cost to our business and have the potential to adversely impact customer service, our investments and our brand. In many cases, the costs associated with the failure of a critical supplier could be significant, particularly if this means we have to change technology. If we are unable to contract with an alternative supplier, our customer commitments could also be compromised, possibly leading to contractual breach, loss of revenue or penalties.</p>	<p>Deliver superior customer service</p> <p>Transform our costs</p>
<p>We are committed to ensuring that all dealings with suppliers, from selection and consultation through to contracting and payment, are conducted in accordance with our trading and ethical policies. See Suppliers on page 36.</p>	<p>We are continually testing the global market for new sources of supply but this brings its own challenge of suppliers becoming more geographically and culturally diverse from our customers.</p>	
<p>We have a number of suppliers that we have identified as critical. The failure of one of these suppliers to meet its obligations could cause significant harm to our business.</p>	<p>A failure in our supply chain to meet legal obligations or ethical expectations could adversely impact our reputation or possibly lead to censure, legal action and financial loss.</p>	
<p>We are committed to evaluating and responding to any associated risks where geo-political and market forces could impact our suppliers' ability to support BT.</p>		

Customer data processing

As a major data controller and processor of customer information around the world we recognise the importance of adhering to data privacy laws. Every day we process the personal data of millions of consumer and business customers and we want individuals to feel confident that when they give their personal data to us they can trust us to do the right thing with it.

Being trusted with customer data goes further than making sure it is secure. It is about ensuring the integrity of the personal data we process, only retaining the information that we need to provide customers with the services for which they have signed up. It is also about being transparent around how we use that data, making sure the personal data is processed legally, fairly and in line with customers' rights and wishes. Through embedding a robust data governance framework we have reinforced our expectations around personal data with our employees, partners and third parties.

As a telecoms and internet service provider we operate under a stringent 24-hour reporting regime to notify the UK Information Commissioner's Office (ICO) should we become aware of a personal data security breach and to notify those individuals who may have been impacted without undue delay.

Failure to comply with relevant data protection and privacy laws could result in varying degrees of negative impact for BT. These include the possibility of regulatory enforcement action, fines, class actions, custodial sentences and a regulatory instruction to cease processing data.

We could also face reputational damage and financial loss from the failure to meet our legal requirements, as well as incurring costs resulting from termination of customer contracts and subsequent customer churn. Companies, such as Sony which has suffered high profile data incidents, have seen a significant negative impact on their share price combined with additional costs associated with non-compliance.

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Changes over the last year

We have increased our focus on category management of suppliers. Category management is a process that means our buyers can consolidate specific categories of spend across all our businesses, so we can maximise the operational and procurement synergies. It helps mitigate the risk of BT not reaching its cost transformation objectives by enabling us to leverage better deals with our suppliers; and to intercept purchase orders where better terms are available elsewhere.

Increased focus on in-life contract management of our critical suppliers is delivering benefits in terms of improved supplier contract performance and risk control.

Risk mitigation

We conduct supplier risk analysis as part of our sourcing strategy, and where possible, take actions to reduce risk, such as through dual sourcing.

We undertake on-site supplier assessments, to evaluate the risks associated with a supplier's capability, capacity and competence to meet our requirements in a predictable, ethical and sustainable manner.

BT operates a comprehensive in-life risk management process called 'Supplier watch' that recognises the supplier's criticality to our strategy and operations; and scans for changes across a range of commercial, financial, operational and reputational risks. We check that the appropriate level of supplier governance is in place across the group; and test that appropriate business continuity arrangements are in place for the risk of supplier failure. Over 330 critical suppliers, as nominated by the operational owners of the business units that depend on them, are covered by the process.

We look for signs of supplier distress that enable us to mitigate the risk before it materialises. A small number of our critical suppliers went into administration in 2014/15, but, in each case, we were appropriately prepared with a business plan that minimised disruption to our customers.

Socio-political, economic and environmental conditions in certain markets and geographies continue to challenge some of our suppliers; and highlight the need for appropriate due diligence across our supply chain.

Protecting our brand from events in the supply chain, such as corrupt practices, the sourcing of conflict minerals or possible human rights abuse, continues to demand a high degree of focus.

National regulatory authorities have demonstrated an increasingly aggressive stance over the last 12 months with the application of financial penalties to both private and public organisations in breach of their data privacy obligations.

We have a Privacy & Data Governance team which is led by the Chief Privacy Officer and has continued to recruit individuals with the appropriate skills and experience as the remit of this team expands.

For the first time in the UK, the ICO imposed more fines than Ofcom. Outside the UK, global organisations felt the force of their domestic regulators with notably the French Information Commissioner (CNIL) and the US Federal Communications Commission's Enforcement Bureau imposing significant penalties on organisations for poor compliance practices.

The Chief Privacy Officer oversees a robust governance and monitoring framework. This defines roles and responsibilities as part of a wider approach to data assurance which utilises independent audits and reviews. We track all mitigations to resolution to ensure that senior management are aware of the risk and how it impacts respective parts of our business.

The sensitivity of this risk is expected to increase as new, more robust data privacy laws are introduced throughout the scope of our operations. The continuing debate around the future EU General Data Protection Regulation is already influencing how multinational businesses address this risk.

We have developed new online tools and awareness programmes to make sure that our people comply in their day-to-day activities where they handle personal information. In addition to raising awareness of Privacy by Design, an approach to projects that promotes privacy and data protection compliance from the start, we have also deployed Privacy Impact Assessment tools as part of the design process around new products and services.

Our focus on broader training and awareness will see a new data privacy module, which our people

will need to complete, deployed with role-specific scenarios for specific job families. As part of this bespoke approach to managing the risk, for the first time we will have a module designed specifically for the contact centre environment to highlight the diverse number of responsibilities our contact centre people have when dealing with customer data.

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Risk case-studies

Raising standards in major contracts

We describe the risks associated with our major contracts on page 42.

High-quality management of large contracts, including the thorough handling of risks, benefits us and our customers. Improved contract management, including increased focus on risks, will generate improved contract performance, in addition to improved customer experience.

How we managed the risk

One example of how we improved our contract management capability this year was the launch of the Gold Standard programme. This programme aims to standardise high-quality benchmarks – for example, around revenue assurance, cost assurance and resource allocation – that are repeatable so that all major contracts apply best practice principles including those associated with handling of risks. All major contracts will be assessed against strict gold standard criteria and those contract teams below the benchmark will be developed/coached for improvement in order to attain the standard.

Outcome and lessons learned

There is a correlation between gold standard and high-performing contracts, so as the gold standard base increases, we should experience a reduction in risk exposure and an improvement in the numbers of customers extending their contract term.

Other benefits have included a more focused contract management community who have seen that shared learning helps them manage their contracts.

Reduction in physical security incidents

For a company the size of BT, protecting our physical assets around the globe is a huge task. We have in the region of 8,000 sites globally, ranging from small rural UK telephone exchanges keeping communities supplied with vital

communications through to major Latin American data centres serving multinational companies. All areas of the physical estate are important for us to deliver services to our customers: from poles, holes and cables in the ground to high-end routers, switches and firewalls. The protection of our network assets relies on us being able to deter, delay, detect and respond to any criminal activity, in addition to our service restoration capabilities.

How we managed the risk

Having an up-to-date inventory of where our assets are is key to being able to prioritise investments in order to protect them. We are able to use our network topology, alarming and inventory systems, coupled with threat-monitoring information from law enforcement partnerships to mitigate our risks. In 2014/15 our investment and proactive initiatives led to a 30% overall reduction in reported incidents. The investment included a mix of new tools, improved risk assessment techniques, building security controls and mobile security guard patrols.

Innovation plays a key role – for example our network security armoury includes the Rabbit (Rapid Assessment of Incidents within BT) alarm monitoring system, developed to give proactive notification of a cable cut by identifying loss of broadband service.

Outcome and lessons learned

While we see a downward trend in the number of incidents, we continue to develop and look for innovative security solutions to protect our physical estate. Continuous improvement of our security strategy is deemed vital to support customer service and business growth opportunities.

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EE acquisition: risks

Our proposed acquisition of EE creates additional risks for BT beyond those captured in our principal risks and uncertainties. In the section below we highlight those risks relating to the acquisition, and new risks that would be relevant to the enlarged group. We described these risks in the shareholder circular in relation to our proposed acquisition of EE and repeat them below.

Risks related to the acquisition

In the period through to completion of the acquisition there are risks relating to the deal itself, as well as business risks during this transitional phase.

Approval of the acquisition

Completion of the acquisition is conditional upon satisfaction or, where capable of being waived, waiver of various conditions. In the event that these conditions are not satisfied or, where they can be waived, waived by the long stop date (or a later date which we agree with the sellers), the Share Purchase Agreement will automatically terminate. There can be no assurance that the conditions will be fulfilled or waived, or that the acquisition will be completed.

The acquisition is subject to merger control approval from the Competition and Markets Authority (CMA) in the UK. Approval from the CMA may take longer than expected to obtain, may not be granted, or may be granted subject to conditions or remedies, including BT's or EE's divestment of assets or businesses and/or restrictions on the conduct of the enlarged group. Any of these could delay or jeopardise completion, impose sustained additional costs for the enlarged group and/or materially reduce the anticipated benefits (including synergy benefits) of the acquisition, or result in a material adverse effect on the enlarged group's business, financial condition and results of operations.

EE's performance prior to completion of the acquisition

The anticipated benefits and synergies of the acquisition have been developed based on assumptions regarding (among other things), EE's financial and operational performance, including in the period before completion when EE's performance is outside our control. During this time, EE's performance and that of BT could be negatively impacted by one or more of the following:

- an adverse event, or events, affecting EE which would not give rise to a right of BT to terminate the acquisition;
- as a result of the planned acquisition, some of BT's or EE's customers or strategic partners may terminate or reduce their business relationships with the enlarged group, for example to avoid sourcing too great a proportion of services from a single company;