We connect for good

BT Group plc
Annual Report 2021

Staying connected

has never been as important

When people connect, there's no limit to the good they can do. Today, that's truer than ever. The connections we make are helping solve the world's biggest challenges such as the global pandemic, climate change and cyber security. Through the power of technology, we're supporting customers to live, work and play together better. In these extraordinary times we are sharpening our focus and accelerating change.

We connect for good

Good for… our customers

EE tops the table

Delivering the best mobile experience remains our priority. Being recognised as the UK's best network for the fifteenth consecutive time reflects our continued investment in keeping our customers connected to the things that matter to them most.

Giving small businesses a boost

Last summer, we launched a support scheme for small businesses that promises to boost their connectivity, cash flow and confidence.

Unbreakable wi-fi connection

Innovation is at the heart of what we do. Our new unbreakable internet service brings together the combined power of BT and EE's networks.

the country

Gifting tablets and data to the NHS

Giving unlimited free data to EE customers who work for the NHS and providing tablets to hospital wards so patients could videocall friends and family are just two of the ways we supported the NHS in 2020.

Helped 10 million people in the UK to improve their digital skills

When we launched Skills for Tomorrow, we said we wanted to help 10 million people in the UK learn about tech. We've now achieved this aim, five years earlier than expected.

Beating loneliness with BT+1

In a year that has kept us apart from our loved ones, we started a movement to bring us closer to family and friends.

our colleagues

Better workplace

Our new workplaces are here to shape the direction of our business. A modern company that's better connected to colleagues and customers.

Celebrating the Colleague Board's first birthday

We launched the Colleague Board so we could give everyone here a voice. Through a tough year they've been inspiring change across our business.

tomorrow

Our aim to be Net Zero heroes

We've been leading on climate action for more than 25 years and we're now targeting net zero for the whole of BT by 2045.

Young scientists make exhibition of themselves

We've been sponsoring what's now the BT Young Scientist & Technology Exhibition for the past 21 years, proud to help cultivate and nurture Ireland's future scientists and engineers.

Taking 5G to school

We're bringing 5G into the heart of the classroom through immersive experiences.

Outer space, under the ocean or on top of Mount Everest, students can feel like they're right there with this new way of learning – the first of its kind in the UK.

There never has been a more crucial time to play such an important role in the lives of our customers. We have sharpened our focus, accelerated our digital drive and supported the nation in adapting to the new normal.

For more information read our Digital Impact and Sustainability Report at

bt.com/sustainabilityreport

To read these stories and more – visit our online annual review and see how we're connecting for good.

bt.com/annualreview

Contents

Look out for these throughout the report:

Reference to another page in the report

Reference to further reading online

This **Strategic report** was approved by the Board on 12 May 2021.

By order of the Board.

Jan du Plessis
Chairman
12 May 2021

Please see the **cautionary statement regarding forward-looking statements** on **page 200**.

Pages 1 to 68 form the **Strategic report**. It includes our business model, strategic progress, our key performance indicators, group performance and our principal risks and uncertainties.

The **Corporate governance report** on **pages 69 to 110** forms the **Report of the Directors** and includes the **Report on directors' remuneration**.

A message from our Chairman

This has been a year like no other. Competitive pressures across all of BT's business areas have intensified, the pace of technological change has accelerated further and dependency on the connectivity we provide our customers has become absolute. To keep pace with this changing landscape, business transformation at BT has become a constant.

A year like no other

> The vital services we provide helped to improve things for those in their time of greatest need, keeping friends, families, businesses and crucial Government services – including the NHS – connected.

Net zero

we have pledged to be a net zero business by 2045 and we're working with our suppliers to help them reduce their carbon emissions

10m

this year – five years ahead of target – we hit our goal of reaching 10m people with help to improve their digital skills

This year, though, the greatest driving force of transformation – whether temporary or permanent – at any organisation has been Covid-19. The pandemic has been gruelling for everybody and BT has more than played its part in the national and international effort to deal with its consequences.

The vital services we provide helped to improve things for those in their time of greatest need, keeping friends, families, businesses and crucial Government services – including the NHS – connected. We also undoubtedly played a role in helping the online retailers who have become so important to many of us.

The way BT has managed through the pandemic whilst progressing its business modernisation programme is a significant achievement. It is the commitment of the whole BT team that made this possible, best illustrated by the award of no fewer than eight MBEs to colleagues in recognition of their efforts during the pandemic.

Despite the resilience of our colleagues and our networks, and the dependency of our customers on the service we provide, our financial performance during the year has been impacted by the pandemic. Although in line with expectations, adjusted revenue and EBITDA were both down 6% compared to last year and normalised free cash flow was 27% lower than the previous year.

We know our investors and our customers understand that BT must modernise to maintain its leadership position and return to financial strength. Doing so will improve our offer to customers and in turn we will generate value for our shareholders. Modernising BT is a core part of the company's revised strategic framework which was launched this year – and on which you will find more detail in Philip Jansen's message on page 6.

Building our networks

At the heart of BT lie its networks. Investing in our broadband and mobile networks is investing in the future of BT. The 2020/21 financial year was of vital importance in this regard: we committed to make investments that will be the foundation of BT's success over the long-term and which will in turn underpin much of the UK's future economic prosperity.

In May 2020 we set out our target, subject to the right conditions – and critically the outcome of Ofcom's Wholesale Fixed Telecoms Market Review (WFTMR) – to build full fibre broadband to 20m premises across the UK by the mid- to late-2020s.

To facilitate this significant investment – and to help us navigate the uncertainties caused by the pandemic without compromising our credit rating – we took the tough but necessary decision last year to suspend the 2019/20 final dividend and all dividends for this year and rebase it. The Board expects to resume dividend payments in 2021/22 at 7.7 pence per share, with 30% payable at the interim stage later this year.

In March 2021, Ofcom published the outcome of the WFTMR. With it came the regulatory certainty we required on behalf of our shareholders to confirm our FTTP[a] build investment and we have since further increased and accelerated our target from 20m to 25m premises by December 2026. This will be the single largest investment in the country's digital infrastructure for a generation and it will support the UK's transition to a gigabit economy.

Ofcom has clearly moved to a regulatory regime that encourages network builders to invest in the UK's digital infrastructure. This should be welcomed by everybody, including investors, given the importance of outstanding connectivity to the UK's future prosperity.

Climate pledge and digital skills

Investing for the future must also include the collective and individual steps we take on climate change and in supporting our society and communities. As we build back better from this awful pandemic, progress against both these imperatives couldn't be more important.

BT has pledged to be a net zero business by 2045 and we're working with our suppliers to help them reduce their carbon emissions by 42% by March 2031. In November, we reached the milestone of sourcing 100% of electricity, worldwide, from renewables. At the same time, we announced our ambition to move nearly all of BT Group's vehicles – the UK's second largest commercial fleet at almost 33,000 in total, including 28,000 Openreach vehicles – to electric and alternative fuels by 2030.

While climate change has been high on the agenda for many years, 2020 put digital inclusion at the heart of UK politics. Our Lockdown Learning and Standout Skills campaigns are examples of the support we provided customers on digital inclusion and skills training during the year.

These initiatives have been a success. This year – five years ahead of target – we hit our goal of reaching 10m people with help to improve their digital skills by 2026. We have now extended that target to a more stretching ambition to reach 25m people by the end of March 2026.

a Fibre-to-the-premises, also known as full fibre.

A message from our Chairman continued

We have now seen almost five years of consecutive improvements in our quarterly customer satisfaction surveys and, most recently, record Net Promoter Scores for both the BT and EE brands.

Board changes

We welcomed two new directors during the year: Adel Al-Saleh joined on 15 May 2020 as a non-independent, non-executive director and Deutsche Telekom's nominated representative, and Sara Weller CBE joined on 16 July 2020, immediately before the AGM.

Mike Inglis has decided not to put himself forward for re-election as a non-executive director at our 2021 AGM. Our thanks go to Mike for his six years of service and as a highly active member of the Board, sitting at various times as a member of virtually all our committees – the *Audit & Risk*, *Nominations*, *Remuneration*, *BT Compliance* and *Digital Impact & Sustainability Committees*.

As announced on 1 March 2021, I will be retiring as chairman of the company later in the year. Chairing the Board of BT has been a tremendous privilege. Although it's a much over-used word, it really is true that BT is a unique business. With it come a unique set of challenges but navigating the complexity is as rewarding as it is demanding, because what this great company does, really matters to so many people. However, having served as chairman of significant FTSE companies for 17 years, I know that personally the time is now right for me to focus on other interests.

The search for my successor is being led by Iain Conn, the senior independent director, and shareholders should know that I have assured the Board that I am fully committed to serve as chairman as part of an orderly transition process until my successor is in place.

Prospects

If, in my fourth and final letter to shareholders, I wanted to reflect on events since I stepped up as chairman, there can be no denying the overall decline in our share price – a decline which in fact stretches back a full five years. I know shareholders will derive little comfort from the knowledge that much of this decline reflects trends seen across our sector, but I am pleased that our share price has performed much better over the last year, increasing by about 50% from the depressed levels at which we traded for much of last year.

Much of that recovery reflects the tremendous dedication and hard work of the management team in recent years, together with some real improvements in the fundamental prospects of our business.

Our relationship with Ofcom has improved significantly since 2017 and the business case for FTTP is now clearly positive. In a few short years, the number of premises passed by Openreach has increased more than tenfold from 420,000 premises to 4.6m. And Openreach is now building at pace – aiming to ramp up its build rate to 4m homes and businesses a year.

Our Global business has fully recovered from its significant problems some years ago. A new leadership team with a new strategy has worked tirelessly to divest networks and operations in around 20 countries globally and are successfully executing their strategy to focus capabilities on today's software-defined world. Global is now fully stabilised and making a positive and valuable contribution to the group.

In our Consumer business we are seeing the benefits of some significant long-term investments aimed at improving customer experience. We have on-shored our customer service teams; we are levelling up the gap between new and existing customer pricing; and we are now starting to see the first wave of truly converged products that use the combined power of BT's fixed and mobile networks coming to market. We have now seen almost five years of consecutive improvements in our quarterly customer satisfaction surveys and, most recently, record Net Promoter Scores for both the BT and EE brands.

Looking to the future, the Board and management do not for a moment under-estimate the scale of the challenge we face in further modernising BT to ensure that we can provide brilliant service to our customers in a highly competitive industry. At the same time, we are excited by the opportunities ahead of us.

BT has a strong and diverse Board at the helm, an outstanding leadership team under our chief executive, Philip Jansen, and a clear strategic purpose and vision that is being well executed. I am proud to have played a part in helping to achieve these strong building blocks and I have every confidence that BT is well placed for the next stage in its development towards consistent and sustainable growth over the long term.

Jan du Plessis
Chairman
12 May 2021

A message from our Chief Executive

In a year when so much has been reappraised across business and society, BT's purpose has shone through as a clear guiding principle: we connect for good. Globally, our colleagues have gone the extra mile for our customers this year, keeping them, their families, friends and businesses connected.

We launched a range of customer initiatives to help people during the pandemic, including our digital skills and inclusion campaigns, Top Tips on Tech and our Lockdown Learning support package; our free unlimited data offer for EE customers working in the NHS; the launch of our Small Business Support Scheme; and we provided high-speed fibre and wi-fi connectivity to over 200 vaccination centres, connecting mass testing centres and 17 temporary NHS hospitals in England, Scotland and Wales.

A pivotal year

A message from our Chief Executive continued

> Our record high customer service ratings reflect the outstanding efforts of all our colleagues. We've still got progress to make but these are good signs, demonstrating the value our customers place on the critical connectivity we provide them.

Our record high customer service ratings reflect the outstanding efforts of all our colleagues. We've still got progress to make but these are good signs, demonstrating the value our customers place on the critical connectivity – as well as the improvements in experience and service – we've provided them this year. Customer ratings are positive across virtually all parameters and BT's customer satisfaction is the highest it's ever been.

That doesn't mask the fact that the pandemic has been hard for our colleagues. At the start of the year we gave our frontline key workers a 1.5% pay rise and froze pay for managers; we guaranteed no job losses directly resulting from the pandemic in the first three months of the year; and we took the decision not to use the Government's furlough scheme. For the current financial year we have frozen pay for all colleagues but plan to pay a special bonus for our frontline colleagues of £1,000 in cash and £500 in shares to recognise and thank them for their efforts.

We also supported colleagues around the world by setting up a dedicated wellbeing portal, providing weekly updates from our chief medical officer, listening and responding to colleagues' concerns and massively ramping up our internal communications to ensure they felt supported wherever they are.

Despite the outstanding operational performance of our colleagues in the face of the pandemic, our financial performance during the year was significantly impacted by Covid-19. Revenue alone was around £1.6bn lower than the previous year and this had a knock-on effect on our EBITDA and normalised free cash flow.

Importance of our networks

Without connectivity as we know it today, the global impact of Covid-19 would have been unthinkable. BT's leading networks have been a lifeline throughout the pandemic for our customers. Daytime data traffic over our broadband network doubled from an average of five terabits per second (Tbps) to around 10 Tbps with more people at home during the day.

2020 will be the year we look back on as the moment society truly understood the value of good connectivity. In 2021, we're stepping up to deliver the next generation of infrastructure and we will be increasing and accelerating our FTTP build plan by an additional 5m premises, from 20m to 25m by December 2026. We have the capacity to fund this additional build from internal resources. However, we believe we can deliver further value to shareholders by funding the additional 5m premises through a joint venture with external parties and we will begin exploring options.

In mobile, we have extended our 4G coverage, and hit our target of doubling our 5G network which now reaches 160 towns and cities with broader and more highly rated coverage than any other operator. Following the conclusion of Ofcom's 5G spectrum auction in March 2021 – securing the spectrum we need at a lower than expected cost – we will be able to continue growing our position as the UK's number one 5G network.

The investments we make in these two leading networks over the next decade or so mean we'll be able to combine them to create the UK's leading smart converged network, the power of which will deliver economic prosperity for decades to come.

Improved investment case

The confirmation of our FTTP investment, based on our confidence of being able to achieve a fair return; the completion of the 5G spectrum auction; and the successful conclusion of the 2020 triennial BT Pension Scheme valuation have cleared up some significant uncertainties for our shareholders. This clarity now allows us to focus on executing our strategy and returning BT to growth.

Refreshed strategic direction

In July 2020, we introduced BT's new strategic framework. It comprises three pillars which support our ambition to be the world's most trusted connector of people, devices and machines: build the strongest foundations; create standout customer experiences; and lead the way to a bright sustainable future.

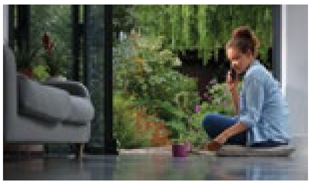
Our network investments form a key part of our work to build the strongest foundations for the company. During the year, I also made changes to the *Executive Committee* and to the way we operate across the organisation to ensure we are best placed to continue delivering for our customers.

160

We continued to invest in our mobile network, hitting our target of doubling our 5G footprint and reaching 160 towns and cities with EE's mobile network

Halo 3+

We're providing customers with the seamless connectivity they need: we launched Halo 3+, the UK's first unbreakable broadband connection



x2

Daytime data traffic over our broadband network doubled from an average of five terabits per second (Tbps) to around 10 Tbps with more people at home during the day

In January 2021, we announced Mike Sherman's departure and the formation of two new units: Digital, led by Harmeen Mehta, who joined from Bharti Airtel, in the newly created role of chief digital and innovation officer; and Networks, led by Howard Watson, chief technology officer. Rob Shuter joined as CEO of Enterprise in February 2021 from MTN, replacing Gerry McQuade who retired from BT. In March we announced that Sabine Chalmers will become general counsel and director of regulatory affairs, following the departure of Cathryn Ross who will leave BT in June 2021 for a new role outside our sector.

With this much strengthened executive team now in place, we are set to accelerate our progress to modernise BT and return this business to top-line, profitable growth. Last year we set our target of £1bn annualised cost savings by 2023, rising to £2bn by 2025. We've made very good progress in the first year, achieving £764m of gross annualised savings in 2020/21.

During the year we also broke new ground with the introduction of exciting products that will provide customers with the seamless connectivity they need: we launched Halo 3+, the UK's first unbreakable broadband connection; EE had a great launch of the Apple iPhone 12 in the autumn; and Global launched Eagle-i, our new security platform that will transform our managed services through proactive, predictive cyber security protection.

To see Philip in conversation visit our online annual review.

bt.com/annualreview

Looking forward

In March 2021, our chairman, Jan du Plessis, announced his intention to retire from the Board. On behalf of everyone at BT, including the Board and the *Executive Committee*, I wish Jan all the very best for his retirement, thanks for his wise counsel and congratulations on a truly outstanding and accomplished career.

We are investing heavily in the future of the business, including the expansion and acceleration of our full fibre build plan. This additional investment reflects the scale of our ambition to reinforce the foundations for growth, both for the company and the nation.

During this financial year we'll start our pivot to growth in revenue and EBITDA. We'll continue to grow both metrics predictably and consistently into the future, underpinning the reintroduction of our progressive dividend this year.

Although the scale of the investments we are making will inevitably press on cash flow over the next few years, they will not impact our ability to pay a dividend and they are designed to deliver enduring success for all BT stakeholders. Furthermore, once we are through the peak investment phase, we will see a very material increase in cash flow creating further options for BT in the future.

We've achieved a huge amount this year, and while there's still a lot more to do, BT is now on the front foot and driving growth and value for all our investors and stakeholders.

Philip Jansen
Chief Executive
12 May 2021

Executive Committee

The *Executive Committee* provides input and recommendations to assist the chief executive with strategy development and operational management. It is chaired by the chief executive.

The *Executive Committee* assists the chief executive to:

- develop group strategy and budget for approval by the Board
- execute the strategy once the Board approves it
- give assurance to the Board on overall performance and how we're managing risks.

The chief executive, or his delegate, take all decisions. This is so there is a single point of accountability.

***Executive Committee* changes**

The following changes to the *Executive Committee* took place during the year:

- Gerry McQuade left BT and therefore ceased as CEO, Enterprise
- Rob Shuter joined BT as CEO, Enterprise
- Michael Sherman left BT and therefore ceased as chief strategy and transformation officer
- Harmeen Mehta joined BT as chief digital and innovation officer.

The following changes have been announced to the *Executive Committee* that will take effect from 1 June 2021:

- Cathryn Ross will leave BT and therefore cease as regulatory affairs director
- Sabine Chalmers will become general counsel and director of regulatory affairs.

Philip Jansen
Chief executive
Appointed as chief executive in February 2019 and to the Board in January 2019.

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

Simon Lowth
Chief financial officer
Appointed July 2016.

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

Ed Petter
Corporate affairs director
Appointed November 2016.

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

Howard Watson
Chief technology officer
Appointed February 2016 as chief technology and information officer and became chief technology officer in March 2021.

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

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

Marc Allera
CEO, Consumer
Appointed September 2017.

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

Bas Burger
CEO, Global
Appointed June 2017.

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

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

Sabine Chalmers
General counsel
Appointed April 2018.

Before joining BT, Sabine was chief legal and corporate affairs officer and company secretary of Anheuser-BuschInBev for 12 years. She also held various legal leadership roles at Diageo. Sabine is qualified to practise law in England and Wales and New York State.

Harmeen Mehta
Chief digital and innovation officer
Appointed March 2021.

Before joining BT, Harmeen was group CIO and head of cloud & security business at Bharti Airtel. Harmeen has experience leading digital, engineering, IT and innovation transformation. Harmeen has previously been CIO at Bank of America Merrill Lynch, BBVA and HSBC.

Cathryn Ross
Regulatory affairs director
Appointed January 2018.

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

Rob Shuter
CEO, Enterprise
Appointed February 2021.

Before joining BT, Rob was group president and CEO of MTN Group. Prior to joining MTN, Rob was CEO of the Europe cluster of Vodafone Group having worked there from 2009 to 2016. Earlier in his career, Rob held various roles in the financial sector in South Africa sector including managing director of retail banking at Nedbank and head of investment banking at Standard Bank.

Alison Wilcox
HR director
Appointed July 2015.

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

Clive Selley
Invitee
CEO, Openreach
Appointed February 2016.

Clive was formerly CEO, Technology, Service & Operations, CEO innovate & design and before that president, Global Services portfolio & service design. The CEO, Openreach cannot be a member of the *Executive Committee* under the provisions of the Commitments. Clive attends *Executive Committee* meetings as appropriate.

Rachel Canham
Company secretary & general counsel, governance

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

About BT and our purpose

We're one of the world's leading communications services companies. The solutions we sell are integral to modern life. Our **purpose** is as simple as it is ambitious: **we connect for good**. There are no limits to what people can do when they connect. And as technology changes our world, connections are becoming even more important to everyday life.

We connect for good

We champion these connections and empower people and organisations to get more from this emerging world, removing limits and unlocking potential. We harness the power of technology to help solve some of the world's biggest challenges such as cyber security, the global pandemic and climate change.

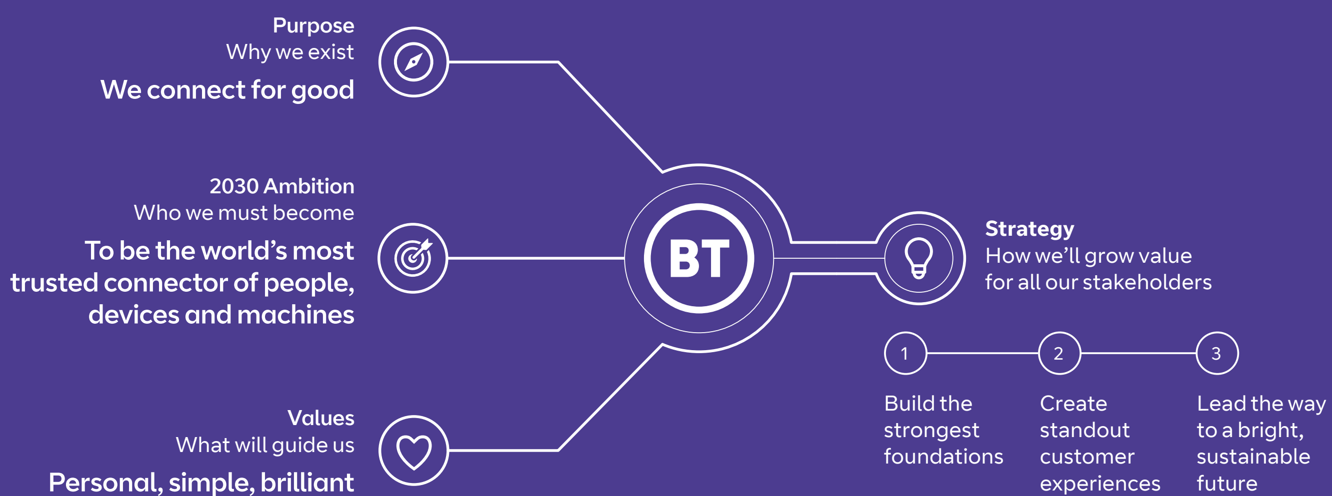
Our **ambition** is to be the world's most trusted connector of people, devices and machines. Technology is rapidly and fundamentally changing our lives, businesses and societies, and trust will play a critical part in our customers being able to take advantage of these changes. We want to keep showing our customers they can trust and depend on us – that we're by their side, fixing their problems, innovating to make their lives easier and better.

Guiding how we deliver our purpose and ambition, our **values** of personal, simple, brilliant help us do the right thing for our customers, colleagues and country.

We're one of the UK's best-known companies. And we're also a global organisation, able to provide solutions for our customers in over 180 countries. 2021 marks our 175th birthday, making us the world's oldest communications company too.

We provide fixed, mobile and converged connectivity solutions. They include broadband, mobile, TV, networking, IT services and related services and applications. We're responsible for building and operating networks and delivering the connectivity-based solutions that are essential to modern lives, businesses and communities.

We're made up of organisational units. There are customer-facing units that sell solutions to our customers and corporate units that support the whole group. Openreach is a separate but wholly-owned customer-facing unit which is operationally independent.



See page 19 for more information on our strategy.

Financial highlights

Revenue
£21.3bn (7)%
(2019/20: £22.9bn)

Profit before tax
£1.8bn (23)%
(2019/20: £2.4bn)

Adjusted[a] EBITDA
£7.4bn (6)%
(2019/20: £7.9bn)

Cash flow from operating activities
£5.3bn (16)%
(2019/20: £6.3bn)

Normalised free cash flow[b]
£1.5bn (27)%
(2019/20: £2.0bn)

Basic earnings per share
14.8p (15)%
(2019/20: 17.5p)

Capital expenditure
£4.2bn 6%
(2019/20: £4.0bn)

a Adjusted (being before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense), as explained on page 198.
b Normalised free cash flow as defined on page 199.

Our customer-facing units

Consumer

Serving over 14m households, we're the UK's largest provider of consumer mobile, fixed and converged communications solutions. We serve all types of consumers, giving them a great connection and keeping them safe online. Our ambition is to create a single smart, converged network that seamlessly connects customers – wherever they are – to the things that matter most to them.

Global

With the ability to serve customers in over 180 countries, Global integrates, secures and manages network and cloud infrastructure and services for multinational corporations. Our ambition is to solve customers' increasingly complex connectivity and communication needs with over-the-top and platform-enabled business solutions.

Enterprise

Enterprise keeps around 1.2m UK and Republic of Ireland businesses and public sector organisations connected. We also provide network solutions to more than 1,400 UK communications providers. Our ambition is to partner with our customers in their digital transformation journeys and be a growth engine for UK business and the public sector.

Openreach

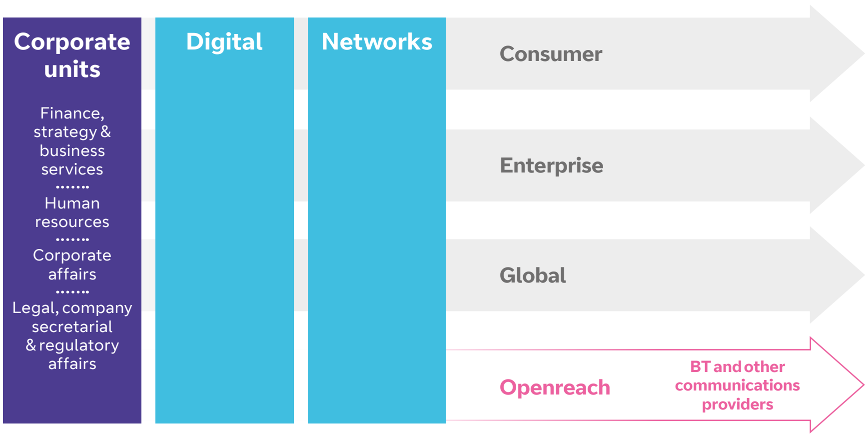
Openreach runs the UK's main fixed connectivity access network, connecting homes, mobile phone masts, schools, shops, banks, hospitals, libraries, broadcasters, governments and big and small businesses to the world. To make sure everyone in the UK benefits from being connected, we want to build the best possible network with the highest quality of service.

How we're organised

Digital innovation and our network are at the heart of our ambition. We launched our new Digital and Networks units on 1 April 2021. Digital is responsible for driving our own digital transformation – and rapidly developing and delivering innovative solutions and outcomes for our customers. Networks has clear accountability for building and operating our networks and protecting network leadership. These two technology units will work together to lead and drive a unified technology strategy and architecture to underpin our transformation and growth.

Our operating model

Our operating model shows how our organisation is designed to deliver our strategy. It describes the business units, their accountabilities and interfaces. It also explains the intent, purpose and spirit of our operating model.



Mandate

Corporate units
Run activities on behalf of the business where it's beneficial to do things once, for everyone

Technology units
Lead and drive a unified technology strategy and architecture to underpin transformation and growth in our customer-facing units through the design, build and operation of our network and IT

Customer-facing units
Own the customer relationships and deliver solutions, outcomes and services to our customers

Openreach
Runs the UK's main fixed connectivity access network for all its customers with greater strategic and operational independence

Our business model

We build, own and operate the UK's largest fixed and mobile networks which support the country's digital ambitions. We design, market, sell and support differentiated, innovative and compelling solutions to our customers – often working with partners.

We operate in wholesale and retail markets. Our customers are consumers, businesses, multinational corporations, public sector organisations and other communications providers.

We keep our customers at the heart of everything we do. Our portfolio of solutions delivers standout customer experiences – helping customers connect, communicate, share, be entertained and do business more effectively.

Consumers buy solutions from our BT, EE and Plusnet brands. They include landline, mobile, broadband and TV services, coupled with supplementary propositions like handsets, accessories and insurance.

Businesses buy similar solutions from us, but with more focus on complex managed network solutions, IT services and cyber security.

Most customers buy BT products and services on monthly, recurring subscriptions or contracts. Individuals, households and small and medium-sized enterprises (SMEs) are typically on 12–24 month contracts. Larger UK and international business customers usually buy managed solutions on multi-year contracts. Wholesale customers buy contracts ranging from one month to five or more years. All these contracts and subscriptions provide ongoing revenue and help build long-term, trusted customer relationships.

Pages 59 to 66 explain how our group risk categories could affect our business model.

Our distinctive assets

We have a unique combination of people, technology, content, networks and other assets. This helps us stand out from the competition and provides opportunities to create value for all our stakeholders.

Customers

Our trusted relationships with our large customer base help us understand their current and future needs and put us in a strong position when developing and launching new solutions and propositions. We have a diverse customer base including over 14m households, 1.2m UK and Republic of Ireland business and public sector organisations and almost 4,000 global customers. More than 1,400 UK communications providers buy our network solutions and propositions too.

Colleagues

We realise our ambitions through our colleagues. This was especially clear during the pandemic as colleagues everywhere kept the UK and our global customers connected. We have 99,700 full-time equivalent colleagues globally, 80,400 of whom are in the UK. Their knowledge, behaviours, skills and expertise are vital to delivering on our purpose to connect for good.

Innovation

BT Labs is the heart of our research, development and innovation, continually pushing the boundaries of connectivity solutions. This year, we created the 5G Edge-XR, a real-time service which combines cloud computing and 5G networks for sports fans to watch immersive events from whatever angle, on whatever device. We invested £720m on research and development this year, filing 109 initial patent applications to add to our current portfolio of more than 5,100 patents and patent applications.

Retail footprint

With more than 580 UK BT/EE retail stores, we have the largest retail footprint of any communications provider. It gives us a uniquely broad reach to engage with, support and grow our customer base.

Financial strength

Strong, recurring cash flows help us invest in long-term, value-creating initiatives. This year, we generated £1.5bn in normalised free cash flow[a], after investing £2.3bn in our network to continue delivering the best experiences to our customers.

Data

Our vast, rich data sets help us create more personalised and meaningful experiences for our customers. As we apply AI and machine learning, we'll be able to work smarter, provide customers with better solutions and outcomes, and open up new growth opportunities.

Networks and physical assets

We own and operate the UK's largest fixed network. More than 660 communications providers use it to connect their customers. We also hold significant stakes in mobile spectrum, with extensive UK geographic and population coverage. EE has been RootMetrics' No. 1 UK mobile network for seven years in a row and we have a leading integrated core network. Our unique network and physical assets help us deliver reliable and superior service to our customers.

Our brands

We serve end customers through three distinct, well-established and trusted brands – BT, EE and Plusnet. They help us win and keep a wide range of customers across different market segments, through solutions targeted to meet their needs. In addition, the Openreach brand serves communications providers.

Suppliers and partners

We work closely with a wide range of established partners and suppliers. Without them, we couldn't deliver the solutions that best meet our customers' needs.

You can find out more about how we engage with colleagues, customers, suppliers and other stakeholders on **pages 34 to 41**.

a Normalised free cash flow as defined on page 199.

Key trends influencing BT

Intense competition

Many of our markets are mature and highly contested by well-known and new competitors. This can drive prices down. But there are still opportunities. Deploying new or more advanced connectivity technologies and solutions creates more value for customers, and for us.

Economic uncertainty

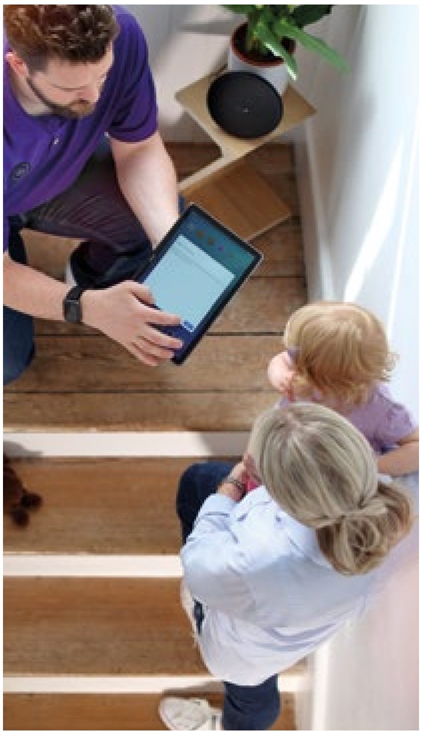
The Covid-19 pandemic led to unprecedented economic uncertainty. The UK economy has shrunk. Unemployment has gone up.[a] Although a recovery is predicted in 2021, it's by no means certain. But while Covid-19 has caused financial concern for many consumers, most expect to spend the same or more on communications.

Increasing importance of connectivity and digitalisation

a Monetary Policy Report – February 2021 *Bank of England.*

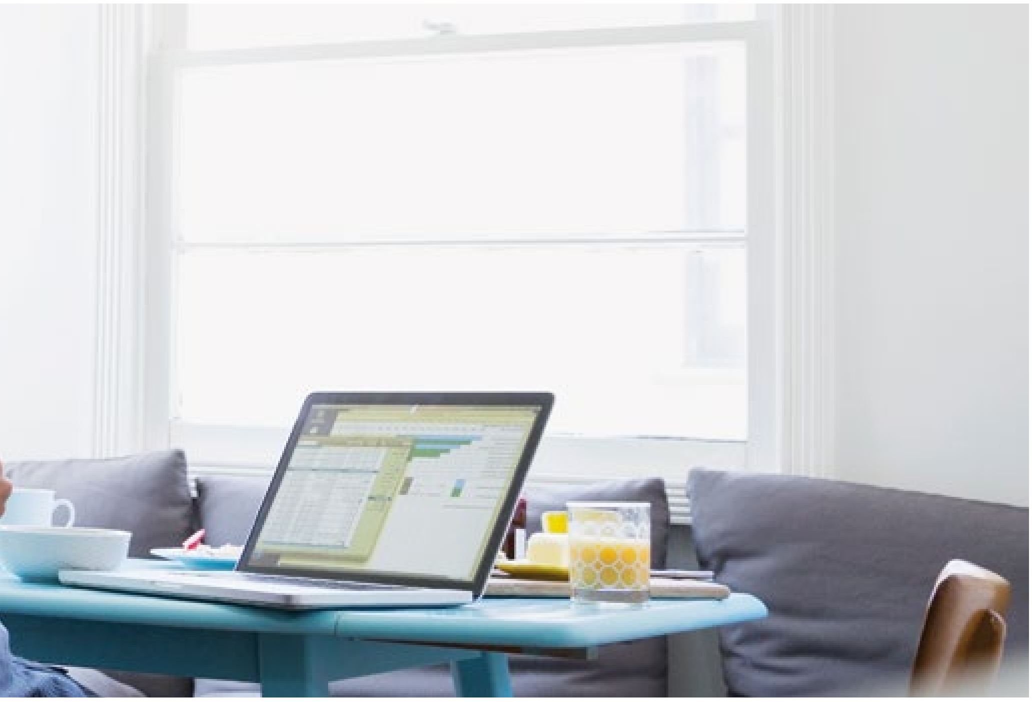
New technologies

FTTP and 5G will help networks handle the demand of more connected devices and higher data use, combined with ever-higher speed and reliability expectations. They will also open up new growth opportunities like edge computing, cloud computing, AI and machine learning. And with the increased reliance on connectivity and these new technologies comes a need for stronger and more dependable cyber security.



Shifting customer expectations

Customers continue to care more about getting extra value. With so many more connected devices at home and work, things like flexibility and security become even more important. Most important of all is reliability. Customers need strong and consistent connectivity that isn't affected by family members, colleagues or anyone else's activity.



Covid-19 underlined the importance of being connected. There was a huge rise in the number of people working from home and businesses had to accelerate their digital transformations. While the core network is still essential, we'll keep evolving the solutions we offer to meet our customers' changing needs. As consumers and businesses adapt to the post-pandemic socio-economic climate, they'll need reliable yet flexible connectivity more than ever.

Convergence

Indoors or outdoors, rural or urban, on the move or at home, wherever people or businesses are based, today the need for a consistent connection is universal. Whatever the underlying technology, service must be seamless, and converged propositions that combine fixed and mobile services also create richer customer experiences.

Regulatory update

UK Government and Ofcom's investment focus

The Government recognises how important it is to invest in gigabit-capable networks, with their potential to deliver big economic and societal benefits. In line with the Government's strategic priorities, Ofcom has continued working to create a regulatory framework for fixed communications that encourages investment.

Wholesale Fixed Telecoms Market Review (WFTMR)

Ofcom's WFTMR sets out a clear and long-term framework that promotes and rewards network investment by everyone. It also ensures that consumers will continue to have access to affordable broadband as new networks and services become available. This is positive for BT and our customers. It supports our target to deliver 25m full fibre homes by December 2026 – meaning our customers will get the faster and more reliable services they need.

Ofcom's investment support comes in a number of forms. The new regulatory framework provides greater stability by virtue of having five-year market review periods instead of three and looking across all of the wholesale fixed telecoms markets instead of considering business and residential connectivity separately.

To support competitive investment, wholesale access prices for fixed final mile legacy services will remain stable in real terms across the country until at least 2031. Similarly, Ofcom does not expect to regulate wholesale prices of full fibre final mile services until at least 2031 – depending on prevailing customer outcomes, investment levels and competition. Any regulation beyond that point won't strip away any upside we have earned up to then, and won't cap our investment returns below what is needed to compensate for the downside risk our investors are taking when they decide to invest in fibre today. This is otherwise known as Ofcom's 'fair bet' commitment.

We'll keep working constructively with Ofcom to implement the new regulatory framework. At the same time we'll make sure we can compete fairly so that Openreach can offer attractive terms to all its downstream communications providers, helping them quickly deliver new services to customers. Implementing the framework will need further work with industry to make duct and pole use simpler, complying with new rules on quality of service, and delivering on our commitment to a 'balanced build' across the UK.

Government support for fibre

We continue to believe there is more the Government could do to reduce the cost of building full fibre networks, for us and other providers. That would speed up full fibre rollout and catalyse economic and social benefits. Cumulo rate relief (relief on the rates charged against our network assets such as ducts and poles) and 'barrier busting measures' to make wayleaves and planning easier would help fibre investment go faster.

The Government says it will provide at least £1.2bn to support full fibre rollout. This may potentially increase to £5bn if our industry can build gigabit-capable networks to the UK's 'final 20%' of premises over the next five to ten years to support its target. We expect this money to be available through Government procurement, helping us invest in places that wouldn't normally be commercially viable. When we have more details, we'll decide whether to bid for funds in line with our business investment criteria.

Shared Rural Network

We're making great progress extending our rural 4G coverage as part of the Shared Rural Network initiative. We're upgrading hundreds of existing sites to meet the new coverage obligations in our spectrum licence – including reaching 88% UK geographic coverage by 2024. The Department for Digital, Culture, Media & Sport should announce grant funding soon which will enable new, shared infrastructure in areas where today there's no 4G on any network – making sure 95% of the UK will be able to get 4G from at least one provider.

All-IP

UK phone services will move from our legacy public switched telephone network (PSTN) to IP-based services by the end of 2025. This is a key enabler for the wider move to full fibre in the UK.

We've started moving customers off the PSTN and we're working with Government, Ofcom and industry to minimise any disruption. It's a sensitive project because of the need to look after vulnerable customers and the UK's Critical National Infrastructure.

Broadband Universal Service Obligation

Launched in March 2020, the broadband Universal Service Obligation gives individuals the right to a decent broadband connection, where connection costs do not exceed £3,400 or where the end customer agrees to pay any excess costs. That means at least a 10Mbps download speed and 1Mbps upload speed. As designated universal service provider (alongside KCom in Hull), we're upgrading the network to reach more than 5,500 homes and businesses. On top of that, another 400,000 premises can now get better broadband via a 4G wireless hub.

Getting decent broadband to hard-to-reach homes and businesses can be expensive. So we've introduced a cost-sharing scheme that lets customers close to other premises club together and save money on getting connected.

However, it's true that getting a good connection is prohibitively costly for some homes and businesses, and we don't believe this will be fixed by the broadband Universal Service Obligation scheme. We're committed to playing our part, alongside others in industry, Ofcom and Government, to finding new ways to get decent broadband to those hardest to reach.

In October 2020, Ofcom opened an investigation into the way BT quotes excess costs to individual premises on a shared infrastructure. The investigation is ongoing.

Consumer fairness

UK regulators rightly prioritise consumers' interests. We support that. We want regulation which delivers better outcomes for all customers, while providing support for those who are vulnerable. We've continued to work with Ofcom to show how we're sticking to their Fairness for Customers commitments we signed up to in June 2019. That includes:

- supporting customers and helping them engage with the market
- making sure services work like they should
- making it quick and easy for customers to switch communications providers
- ensuring everyone gets fair treatment.

We've brought in protections voluntarily for customers who don't take up a new deal at the end of their contract. BT broadband customers get a capped price increase, and BT Halo customers keep paying the same.

EE mobile handset customers who've been out of contract for more than three months get a price discount from then on. And when their broadband or mobile contract is ending, we offer existing BT, EE and Plusnet customers equivalently-priced deals to new customers if they choose to re-contract.

For customers we know are vulnerable, we've committed to regular account reviews to help them get the best deal for what they need. And we're soon launching a new, easier to access tariff for financially vulnerable customers with wider eligibility.

In 2020 we also completed upgrading around 700,000 customers from copper to superfast broadband at no extra cost.

We're faithful to Ofcom's Fairness for Customers commitments, and therefore, from 1 April 2021, this will receive Board-level oversight from the *BT Compliance Committee*.

You can find more about the *BT Compliance Committee* on **page 86**.

European Electronic Communications Code

In October 2020, Ofcom confirmed a package of new customer protections based on new European Electronic Communications Code (EECC) rule changes. Ofcom and Government have given us until December 2021 to follow most of the rules, and until June and December 2022 for the remainder. This phased approach is mainly because of the impact of Covid-19 combined with the implementation efforts required.

The rules should give customers enhanced rights. For example, from December 2021, all mobile devices must be sold unlocked. And from June 2022, before they order something, customers will be able to get an easily readable contract summary that allows comparison to other providers and services. On top of that, from December 2021, vulnerable customers with a specific need will get better access to the relevant information in a format they choose.

We're implementing these rules and have responded to Ofcom's further consultation on making it easier for home customers to switch providers. We support Ofcom's proposals, which will benefit our home and business customers.

We agree with the EECC rules and what they're trying to achieve. But some of the rules are really complicated. An example of this is the rule on the customer's ability to end any or all elements of bundled services contracts for any non-beneficial change made to any element of that bundle. Our systems need to be able to recognise Ofcom's broad definition of 'linked contract' across any combination of our fixed and mobile services, and sometimes across brands, in order to offer customers this right. We'll keep working through business and systems requirements to comply with this, while simultaneously planning how to minimise unintended consequences.

Spectrum auction

In March 2021, we bid successfully for extra 5G mobile spectrum in Ofcom's auction in the 700MHz and 3.6GHz bands, securing a total of 80MHz for £475m. Following the assignment phase of the auction we secured our preferred positions within the 700MHz and 3.6GHz bands and will rapidly bring the spectrum into use for provision of additional coverage and capacity of 5G services.

Ofcom has now consulted on its 2020s spectrum management strategy. We've supported a number of its proposals, including the development of a spectrum roadmap. We expect Ofcom will issue a number of consultations relating to spectrum in the coming year, including future annual fees for 2100MHz licences and the award of 26GHz spectrum.

Northern Ireland Public Sector Shared Network contract

In December 2020, Ofcom found that we failed to provide information to telecommunications company eir, related to Fibre on Demand on an 'equivalence of inputs' basis, compared with BT's own downstream Enterprise business unit. This related to the bidding process for a public sector fibre contract in Northern Ireland in 2018. We cooperated with and accepted Ofcom's findings, settling with them to pay a fine of £6.3m. We have put measures in place to prevent this happening again. Ofcom recognised that these errors weren't deliberate and that we took a number of steps to comply with the regulatory obligations. Based on Ofcom's decision, we don't believe this impacted the tender outcome of the contract in question.

Brexit

Brexit has changed the UK's relationship with the EU. We have been planning for Brexit for a number of years and there has been no immediate impact from the Brexit trade deal on our operations and service offerings to our customers. We continue to monitor the evolution of the Brexit trade deal. We have teams working on implementing changes needed to work seamlessly for our customers and with our partners in the EU to ensure our services operate as normal.

Our ambition and strategy

Purpose
Why we exist
We connect for good

2030 Ambition
Who we must become
To be the world's most trusted connector of people, devices and machines

Values
What will guide us
Personal, simple, brilliant

Our strategy underpins our ambition: to be the world's most trusted connector of people, devices and machines.

To deliver our ambition we've refreshed our strategic framework so it explains more clearly how our strategy will generate value for all our stakeholders.

The framework is based on three pillars:

Strategy
How we'll grow value for all our stakeholders

1

Build the strongest foundations

Ambitions are only as strong as the foundations they're built on. That's why we continue to strengthen ours.

Technologically, we're building the **best converged network.** We'll keep investing in full fibre, 5G, network capabilities and extended access. We want to build the best, most reliable converged network to help our customers do more.

Pages 20 to 21

Operationally, we're building **a simpler, more dynamic BT**. We're simplifying our processes and products and modernising our technology. We want to be more efficient and responsive and be easier to deal with and work for.

Pages 22 to 23

Internally, we're building a culture **where people can be their best**. We're stripping away complexity and giving our colleagues the chance to learn and grow. We want to be a destination employer. One that attracts and retains a diverse and talented mix of colleagues who are able to focus on what's important to our customers.

By taking these actions, we'll build strong foundations that our stakeholders can count on.

Pages 24 to 25

2

Create standout customer experiences

We're relentlessly focused on creating standout customer experiences. We're doing that through the solutions we sell, the outcomes we deliver and how we engage with our customers.

We're moving from selling products and services to delivering better, smarter, **differentiated solutions and outcomes**. We're connecting more customers to new technologies. And we're investing in and innovating across our portfolio of solutions, to meet our customers' current and future needs and to make sure they experience the full benefits that new technologies offer.

Pages 26 to 27

We want to deliver **outstanding experiences and service** for our customers when they use our solutions and when they engage with us across all our channels. We want to always put our customers' needs first – acting transparently, keeping them and their data safe and secure and delivering brilliant service every time. We want them to feel we're a strong and supportive partner that they can trust and rely on.

Pages 28 to 29

3

Lead the way to a bright, sustainable future

We're looking to tomorrow too. Leading the way to a bright, sustainable future means two things for us:

Firstly, **incubating new technology-driven growth opportunities** where we have a strong right to play and can deliver outstanding outcomes for customers and country.

Page 30

Secondly, being a **sustainable and responsible business** by helping people build better digital lives, championing responsible tech and human rights, and tackling climate change and environmental challenges.

Pages 31 to 33

We want what we do to benefit everyone, and how we do it to build trust between us and all our stakeholders.

We set out the key performance indicators we use to track progress against our strategy on **pages 46 to 47**.

Our directors' annual bonus scorecard measures are linked to our strategic pillars, see **page 95**.

Pages 59 to 66 explain how our group risk categories could affect our strategy.

Strategic progress

Our ambition is bold and stretching. Our strategy guides us on that journey. There will always be more work to do, but this year we've made excellent progress against our strategic priorities.

1

Build the strongest foundations

The best converged network

For us, building the strongest foundations starts with the network. The need for people and businesses to connect has never been greater. As the number of connected devices keeps growing, we need a converged network that uses the best of our mobile and fixed networks to seamlessly support our customers' needs.

To achieve this goal, we continue to invest in existing and new technologies. This year we have made progress against four key priorities:

5G by default

EE is the UK's best mobile network. In 2020, RootMetrics awarded EE UK Best Mobile Network for the seventh consecutive year, including for 5G. So far, we've launched 5G in 160 towns and cities. It's giving our customers faster speeds, a more reliable service and near-instant connections to content. We've also further improved our backhaul links by building almost 3,000 10G links to support enhanced peak speeds for 4G and 5G customers.

To support our business customers we're building and managing 5G private networks, as we have done with Belfast Harbour where we will help accelerate their digital transformation and smart port ambitions with a state-of-the-art 5G ecosystem.

160

towns and cities with 5G

Fibre by default

Our total full fibre footprint now reaches 4.6m premises, over 2m of which were passed in the last 12 months. That's an average of almost 40,000 a week, and in the final week of March 2021 Openreach's build rate surpassed 100,000.

Given Openreach's build confidence, regulatory clarity, the Government's recent tax super-deduction and a positive 5G spectrum auction outcome, we have decided that the conditions are right to increase and accelerate our full fibre build. We have increased our target from 20m to 25m premises, and will accelerate rollout to deliver this by December 2026.

Our accelerated build has three massive benefits: it allows us to go faster, beefing up our capacity to build fibre to households and businesses; it will allow us to go further, getting fibre to more people including in rural communities; and it will help fuel UK economic recovery, delivering better connectivity and creating new jobs.

4.6m

total full fibre footprint (premises)

25m

we've increased our full fibre build target from 20m to 25m premises and will accelerate rollout to deliver this by December 2026

7

number of years that EE has been awarded UK Best Mobile Network by RootMetrics

100,000+

full fibre premises passed in the final week of March 2021

2m+

premises passed with full fibre during 2020/21

Extended access

Today our mobile network covers over 99% of the UK population – helping customers connect, wherever they are. But we're also investing in extending our reach further, growing our access network so customers get a brilliant experience in buildings, on the go and in remote places. This investment is focused on:

- expanding our public wi-fi network to reach 5.8m active hotspots, up from 5.6m
- rolling out 58 new sites in rural and remote locations
- acquiring new spectrum. The results of the recent spectrum auction mean that we will get 700MHz spectrum, which will further boost indoor coverage in buildings and venues, and increase our coverage overall
- deploying a fixed wireless network for new fixed wireless and hybrid broadband propositions. In February 2021, we launched our first hybrid broadband device. It uses fixed and mobile networks, giving our customers a more reliable service and an instant connection when setting up their broadband for the first time.

5.8m

active public wi-fi hotspots

99%

of the UK population covered by our mobile network

Network capabilities

Our focus remains on building secure, flexible and robust core capabilities that ultimately let our customers do more. We're continuing to evolve our core network towards a common cloud-based solution that can manage 4G and 5G. We're running pilot 'use cases' to explore edge-enabled services. We worked with Worcester Bosch to enable smart manufacturing via a private 5G network and a BT-managed edge computing infrastructure. For consumers, we're testing edge-based solutions to enable low latency, real-time uses such as the augmented reality experiences we are exploring as part of the 'Green Planet 5G AR' consortium. The lower latency of these new network capabilities means virtually no waiting. It also delivers a much better experience for consumers and businesses and opens up new ways of connecting and working.

c.3,000

10G links built to support enhanced peak speeds for 4G and 5G customers

Strategic progress continued

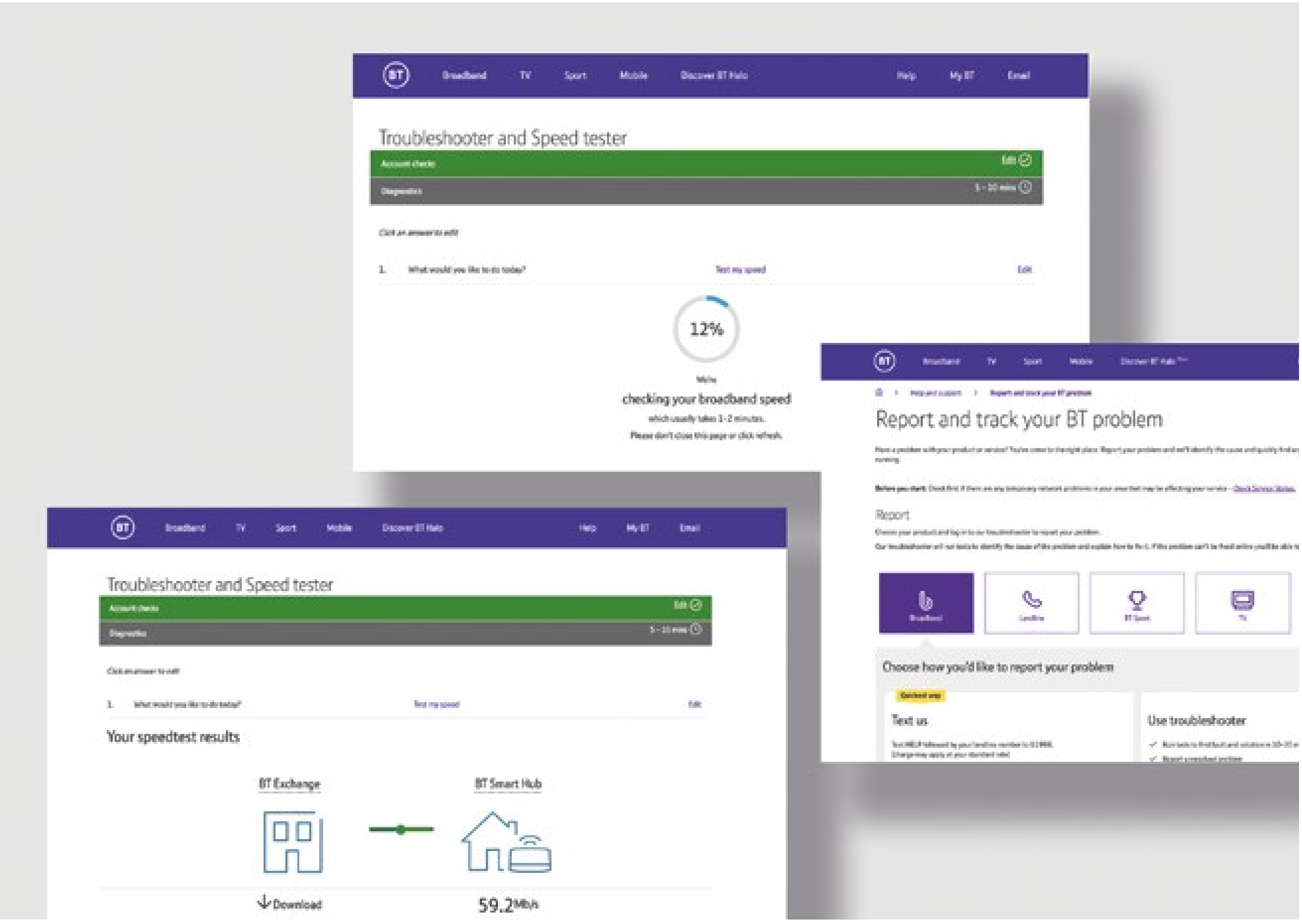
1 Build the strongest foundations continued

A simpler, more dynamic BT

In May 2020, we announced the next phase of our transformation: to modernise our business. To do that, we're focusing on four key missions:

Mission 1. Transforming our customer journeys

At the core of our transformation is building simpler and more automated processes so we can deliver more quickly and efficiently for our customers. So, we're investing in speeding up customer journeys and reducing the number of failures and manual interventions. This will make our operations more productive and radically improve our customer experience. We have launched the first digital journeys for our SME customers, who can now order many of our Halo for Business packages online. This means less effort for our customers, and for our SME sales advisers. We have also built new full fibre journeys, supported by components of our new strategic IT architecture, which will go live early in 2021/22. Most importantly, customers are telling us they're getting a better experience.



By reducing the complexity of our product portfolio – particularly products with outdated features, slow speeds, or data caps – we will be able to deliver a better customer experience.

Mission 2. Simplifying our product portfolio

Reducing the complexity of our product portfolio – particularly products with outdated features, slow speeds, or data caps – is better for us and our customers. It makes offers simpler for us to manage and easier for customers to understand. In the past year, we've removed over half of our older consumer broadband products. We also reduced the number of Global product variants we sell by 34%.

50%+

reduction in our older consumer broadband products

Mission 3. Migrating our customers onto our strategic networks

Our new strategic networks are more capable and reliable, with lower running costs than our legacy infrastructure. Moving customers to new, converged propositions helps us gradually retire these legacy networks. This year, we have launched a number of strategic propositions; for example our consumer customers can now get our IP-based Digital Voice service. We now have 1.5m IP voice connections (mainly businesses), a nearly 40% increase this year.

c.40%

increase in IP voice connections during 2020/21

Mission 4. Moving to a modern, modular IT architecture

We want to launch market-leading products and features to our customers faster. To do that, we're radically simplifying our IT estate, embracing cloud solutions and common components. Over the last year we've been building the foundations of our new IT architecture, based on modern, modularised software components deployed on industry standard platforms. We've now deployed a number of major software platforms such as ServiceNow, Salesforce and Vlocity. And we've started building new, highly automated customer journeys on these platforms, for example to support our Halo for Business and full fibre products.

On top of the progress across these four missions, we've also delivered productivity improvements and managed costs through initiatives like:

- new operating models for our Consumer call centres and Enterprise regional sales teams
- improved use of data insights and advanced analytics to identify the most challenging customer order and fault journeys to proactively respond to potential issues
- operational productivity improvement programmes
- enhanced procurement supported by digital tools
- rigorous functional cost control and Covid-19 mitigating actions.

Our modernisation programme is a key driver for delivering annualised gross cost savings. Last year we announced a target of £1bn in gross cost savings by March 2023, increasing to £2bn by March 2025. We anticipated each target would cost £900m and £1.3bn to deliver, respectively. We're already ahead of schedule, having delivered gross annualised savings of £764m with an associated cost of £438m.

£764m

gross annualised savings delivered during 2020/21

A culture where people can be their best

Our colleagues are central to delivering our ambition so our people strategy aims to make BT a brilliant place to work. This year, we focused on continued skills development, diversity and inclusion, and health, safety and wellbeing.

20,000+
colleagues attended masterclasses led by learning and business experts

1.5m
video views on our new digital learning management system

Skills development

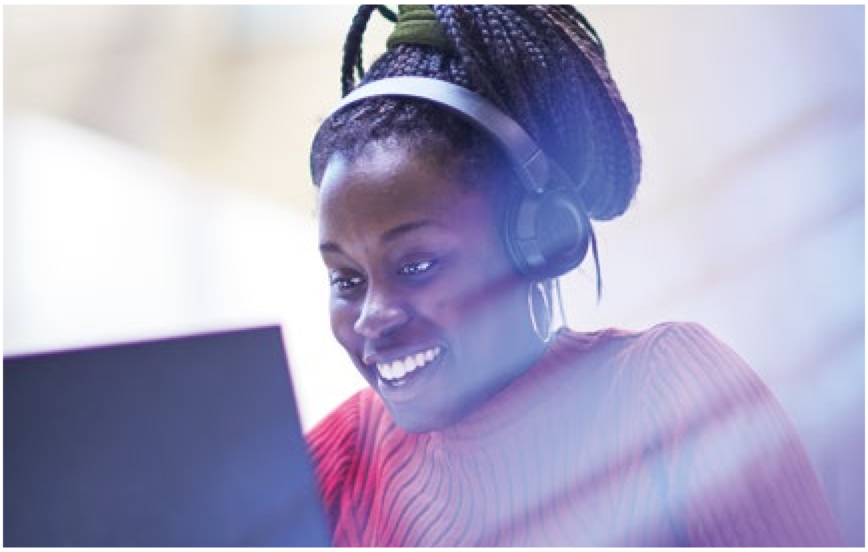
Nurturing future skills creates a culture where people continually want to be their best. We continue to invest in skills development for all colleagues, including technical skills, agile ways of working, resilience and adaptability.

As part of our commitment to unlimited learning, this year we deployed a new digital learning management system. Since launch, there have been more than 1.5m video views. And more than 20,000 colleagues have attended masterclasses led by learning and business experts.

We want to understand and match skill supply to future demand. So we're integrating workforce and skills planning capabilities, and using AI tools, to include data-driven external benchmarks in our skills development. This will help us find opportunities to reskill colleagues to areas of demand.

We also launched a programme to support frontline colleagues who want to transfer into other areas of BT and continued to host and expand networks like TechWomen.

Despite the pandemic, we continued to attract fresh talent – with our graduate and apprentice programmes playing a big part. This year, we hired over 8,700 colleagues. 6,700 of them are in the UK, including more than 1,800 new apprentices and over 200 graduates. At the same time c.14,200 colleagues left BT – c.7,900 through natural attrition, c.4,200 through paid leaver programmes and c.2,100 through divestments.



Diversity and inclusion

We believe that diversity, inclusion, accessibility and equality is everyone's business. And they are core elements of our people strategy. During the year, we updated our UK people data by encouraging colleagues to amend their diversity records on our systems. Now we have a far better understanding of our workforce demographics, which in turn is helping us identify and tackle bias and discrimination.

This year, we increased our focus on race equality, particularly around addressing issues of systemic racism and instances of prejudice across our business. We launched our Ethnicity Rapid Action Plan, and made significant progress in the areas where we could make the biggest immediate differences. We're proud to be a Lifetime Visionary Partner of Race Equality Matters. As at 31 March 2021, nearly 10% of our UK employees[a] declared they were from a Black, Asian or minority ethnic background.

As part of our Valuable 500 commitments on disability inclusion, we've established a Disability Rapid Action Plan across our business to help us make faster progress. The plan is amplifying colleagues' voices through our Able2 People Network and helping us embed disability inclusion right across our business.

Further information on our approach to diversity on our Board as well as our Board Diversity and Inclusion Policy can be found in the **Corporate governance report** on **page 81**.

You can find more about our diversity and inclusion strategy at **bt.com/diversity-and-inclusion**

Health, safety and wellbeing

Covid-19 presented new and far greater day-to-day challenges to customers' and colleagues' health, safety and wellbeing. We're offering a lot more support to our colleagues, to promote their ongoing health and resilience.

During the pandemic, we have delivered preventative wellbeing services, supported shielding workers with a bespoke rehabilitation service and launched an online medical support programme. Our chief medical officer has provided regular updates, with content on topics like remote working, emotional resilience and communication.

Putting effective Covid-19 management measures in place helped our operational, customer and field teams keep working

a UK employees include, amongst others, those who had not disclosed, or had responded 'prefer not to say' in respect of their ethnicity pursuant to our self-declaration campaign. None of those employees are counted for the purpose of this statistic as coming from a Black, Asian or minority ethnic background.

safely while following Government guidelines and legislation.

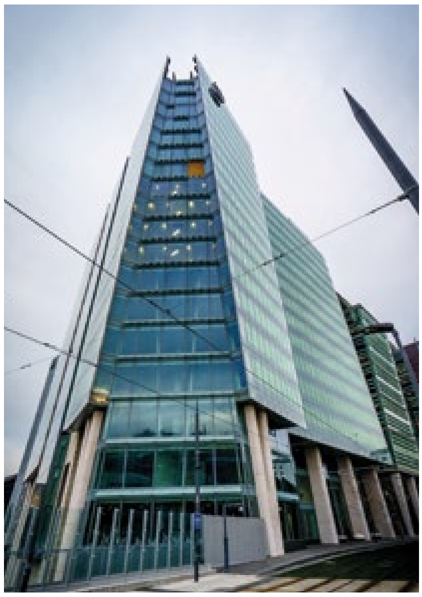
Over 50,000 key workers continued to work from our buildings and out in the field during the pandemic, alongside more than 3,000 retail colleagues who staffed our shops when they were allowed to open.

Sickness absence fell this year, with 2.85% calendar days lost per colleague (a reduction from 3.00% last year). Our workforce had 203 lost time injuries as a result of accidents this year (compared to 198 last year); whilst the annual injury volume is down more than 26% from just five years ago. When our colleagues need support, BT-funded rehabilitation returns nearly 95% of them to full duties.

Tragically we suffered one fatality in 2020 involving an Openreach field engineer. The field engineer had been attempting to provide a fix to a line passing over a river following a period of high rainfall. We are deeply saddened by this loss and continue to focus all our efforts on reducing the risks to our workforce and others affected by our activities.

Workspaces

We're continuing to improve our workspaces to make them brilliant places for our colleagues to work. Our Better Workplace Programme is going well, consolidating offices into fewer buildings that are fit-for-the-future. Once Covid-19 allows, our new Birmingham hub is ready for colleagues to go back to and will eventually host around 3,500 people. In Manchester, building work is about to start at a new and prestigious office location. Construction work at our new London headquarters and Bristol office is also well underway. In Warrington, we've bought a new contact centre. And as part of the plan, we've also exited several sites across the UK.



Pay and benefits

To attract and retain the best talent, and reward our colleagues for their work, we regularly review pay and benefits in the context of competitiveness, sustainability and fairness. For all BT managers eligible for a bonus, we use a group-wide scorecard with a mix of financial and non-financial measures. It means our bonuses match our strategic priorities and stakeholder responsibilities. In line with the Commitments, bonuses for Openreach colleagues are linked solely to Openreach's performance.

We have once again this year announced that all eligible colleagues will receive an annual award of £500 worth of shares through yourshare. Yourshare gives eligible colleagues an opportunity to be a shareholder and share in our success. Colleagues also have the opportunity to participate in our all-employee share plans, save as you earn plan and a share incentive plan, to the extent these are operated each year.

Additionally, we have announced a special one-off cash bonus of £1,000 for our frontline colleagues and key workers, to recognise their commitment and contribution during an extraordinarily challenging year.

Gender pay gap

Our 2020 gender pay gap is stable, with our median and mean gender pay gaps both well below national and industry averages. We'll keep using evidence-based interventions to shift the dial on gender equality.

You can find details of progress on our gender pay gap at **bt.com/genderpaygap**

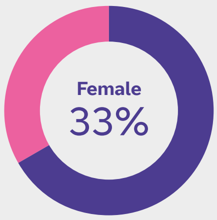
5.0%

our overall median gender pay gap (UK colleagues)

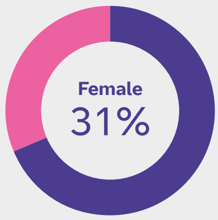
4.9%

our mean gender pay gap (UK colleagues)

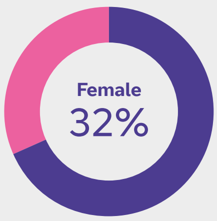
Our people[a]



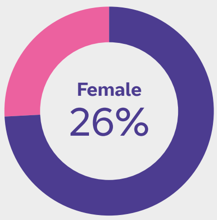
BT Group plc Board
- **Male** 8
- **Female** 4
- **Total** 12



Leadership[b]
- **Male** 81
- **Female** 37
- **Total** 118



Senior management[c]
- **Male** 603
- **Female** 279
- **Total** 882



Employees
- **Male** 75,717
- **Female** 26,320
- **Total** 102,037

a Numbers presented are as at 31 March 2021 and exclude approximately 600 colleagues located in jurisdictions where local labour laws restrict reporting of gender.
b For the purpose of the UK Corporate Governance Code 2018, our leadership comprises the *Executive Committee* (excluding executive directors on the Board but including the CEO, Openreach and the company secretary) and all of their direct reports.
c For the purpose of the Companies Act 2006, our senior management comprises those employees responsible for planning, directing and controlling the activities of the group, or a strategically important part of it (being members of our senior leadership and senior management teams, and directors of the group's subsidiaries but excluding executive directors on the Board).

2

Create standout customer experiences

Our customers are at the heart of everything we do. This year, we focused on two specific areas to make sure we created standout experiences for our customers: offering differentiated solutions and outcomes, and delivering outstanding experiences and service.

Differentiated solutions and outcomes

We continue to evolve our portfolio of solutions, enabling customers to stay connected and get more from their digital lives.

5G network

We've pioneered 5G ever since we launched it in May 2019. We now have the UK's largest 5G network and over 3.2m 5G-ready EE consumer customers. This year, we launched the exclusive iPhone Full Works Plan, with access to Apple Music, Apple TV+ and Apple Arcade included. On top of this, we offered customers access to the market-first augmented reality BT Sport Match Day Experience.

3.2m+

5G-ready EE consumer customers

Halo 3+

We launched BT Halo 3+ this year. It's our latest convergence innovation and was the UK's first 'unbreakable' home wi-fi product, backed up by the EE mobile network. Halo 3+ customers get Complete Wi-Fi for a reliable connection in every room, a no-extra-cost full fibre upgrade and support from our Home Tech Experts.

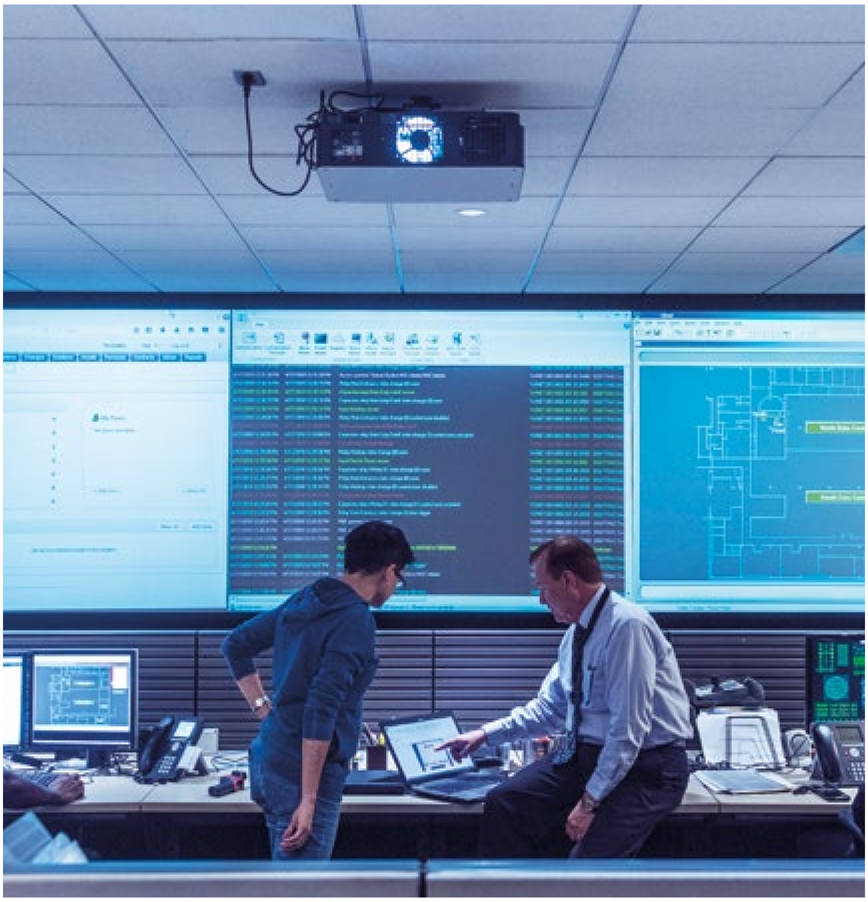
Gaming

In 2020 EE and BT were the only UK mobile and fixed network providers to offer customers PS5 and Xbox Series X next generation consoles. In January 2021, customers signing up to an EE Smart Plan with the new 5G Samsung Galaxy S21 smartphone got EE's exclusive Gaming Unleashed bundle for free, including access to Xbox Game Pass Ultimate.

BT Sport

BT Sport was available on more TV platforms this year, with customers able to get it on Fire TV, Android TV and Roku. On top of that, our monthly pass provides quick, unrestricted no-contract access for fans to enjoy their favourite sports content on new devices.

BT Sport was available on more TV platforms this year, with customers able to get it on Fire TV, Android TV and Roku.



Halo for Business

For business customers we launched Halo for Business, with three services in one – full fibre broadband with a 4G back-up service (4G Assure), a digital phone line and unlimited mobile data. Since its launch, almost 70% of customers are taking enhanced broadband bundles with features like 4G Assure and enhanced IT support.

c.70%

business customers taking enhanced broadband bundles

Intelligent Connectivity

Our Intelligent Connectivity solution helps enterprise customers achieve smarter, digital futures by offering a suite of products from SD-WAN (Software Defined Wide Area Network), SD-LAN (Software Defined Local Area Network), cloud, security and managed services. We've seen an encouraging level of interest in our SD-WAN solutions which offer secure, flexible, high-bandwidth connections across multiple sites using both fixed and mobile technologies.

Security

Leading security expertise is critical to protect us and our customers from cyber attack. This year, we invested in a programme blending BT's tradecraft, unique threat intelligence from the global network, and the latest analytical, automation and orchestration technologies to transform how we deliver advisory and managed services. As part of this programme, we launched new services helping customers understand and react to increasing cyber security risks. We also grew our advisory services team. It's now made up of approximately 300 security professionals around the globe helping customers with their security requirements. Our solution portfolio has been enhanced by over 30 product launches this year.

30+

security solution product launches this year

Zoom Meetings

This year, we were the first international service provider to offer a fully managed Zoom Meetings service. We provide a managed service on top of the core solution. It includes service management, monitoring and user adoption – all critical for multinational companies. In addition, we integrate our world-leading voice networks to provide extended reach for customers and ensure that security is embedded into the core solution. Our unique resources help us combine exceptional customer experiences with flexibility and security in one easy-to-use platform.

Network solutions

In Global, we launched a new generation of software-defined managed network solutions that will provide customers with increased choice and flexibility as they optimise their networks for cloud services. The first service – based on VMWare's industry-leading solution and delivered over our new digital platform – is available to all customers worldwide.

Outstanding experiences and service

We've made good progress on continuing to improve our customers' experience. Our group Net Promoter Score (NPS) has improved for 19 consecutive quarters. It continues to be an area of focus, and is a group KPI (page 46).

Customer experience

Over the last year, Global's NPS rose almost 20 points. In Consumer, NPS for the BT brand is at an all-time high. The latest figures published by Ofcom show sustained falling complaint levels over the last four years with a 50% drop in Ofcom complaints for EE mobile and BT fixed products, and an 80% drop in complaints in EE fixed. EE leads the way, with the industry's fewest landline and broadband complaints of all major providers and the equal lowest complaints rate of any major mobile network operator. BT landline and broadband complaints are now lower than the industry average.

Against the backdrop of Covid-19, we've paid even closer attention to creating outstanding customer experiences.

Lockdown Learning

With UK schools closed due to lockdown restrictions during the year we introduced our Lockdown Learning support package. It's a free scheme for families, carers and children to help them join virtual classrooms and stay connected to their teachers, classmates and schoolwork. It gives those most in need unlimited mobile data, BT Wi-Fi vouchers and free mobile access to BBC Bitesize and Oak National Academy educational content without using up data.

19
consecutive quarters of improvement in group NPS (a group KPI)

c.20
point improvement in Global NPS

50%
drop in Ofcom complaints for EE mobile and BT fixed products

NHS

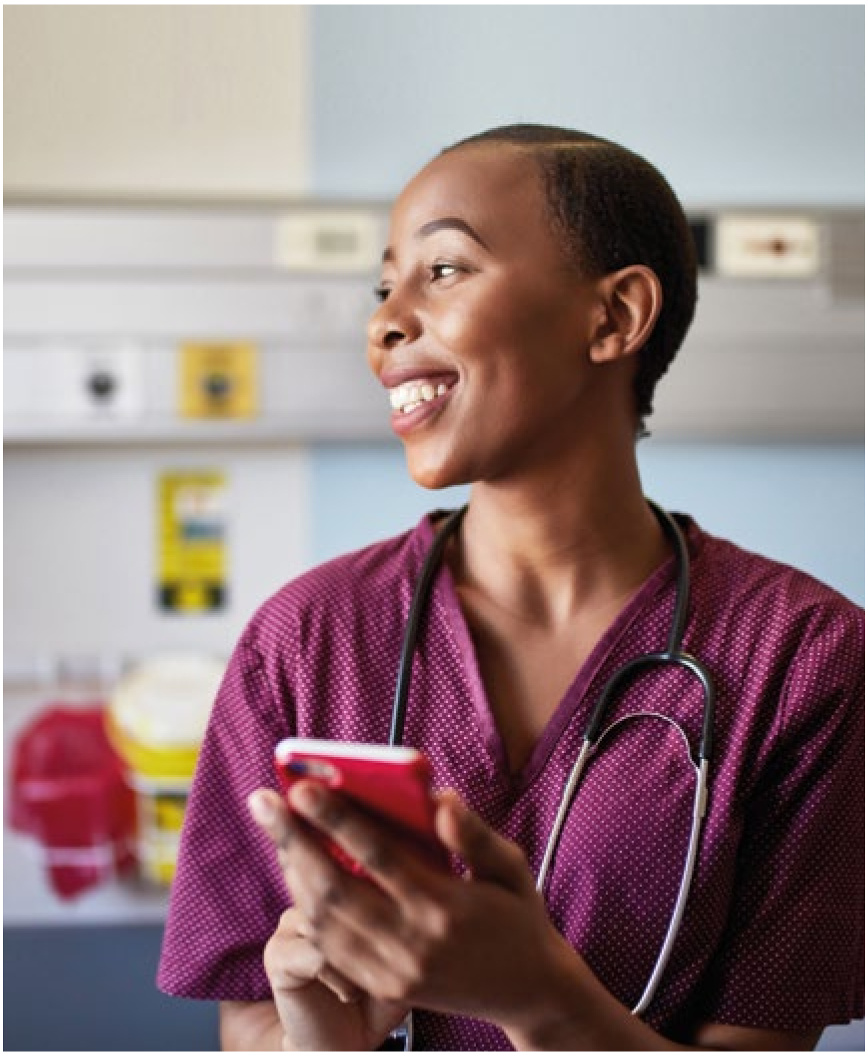
We've helped the NHS respond to the pandemic by connecting a number of the Nightingale hospitals and over 180 vaccination centres across England and Wales with high-speed fibre and wi-fi. This has allowed clinicians to easily access and update patient records via secure mobile devices.

From April 2020, we provided NHS workers and vulnerable customers with free unlimited mobile data on pay monthly plans. Today more than 300,000 NHS staff are benefiting from unlimited data on our EE network. And EE customers can now access NHS online services without using any mobile data – even if they've run out.

300,000+
NHS staff are now benefiting from unlimited data on our EE network

Life Lines

We've also worked with Guy's and St Thomas' NHS Trust on their Life Lines Project enabling families to reach patients at their bedsides virtually. So far, it's allowed more than 100,000 virtual NHS hospital visits – almost 700,000 minutes of much-needed video conversation in 180 hospitals.



Small Business Support Scheme

To support business customers during the pandemic, we launched the Small Business Support Scheme to help them boost their connectivity, cash flow and confidence. Since launch, we've helped more than 2,000 small businesses fund the cost of high-speed business or Ethernet lines. With the shift to digital ways of working we've supported almost 250 small businesses with a free one-to-one coaching session and more than 270,000 people in businesses with free digital skills training.

270,000+
people in small businesses supported through digital skills training

Openreach

Covid-19 had a major impact on Openreach, with customer expectations higher than ever due to an increasing reliance on broadband with the move to working and schooling from home. Through the year, Openreach supported millions of customers working from home by increasing capacity to deliver record repair completions and get homes and businesses back up and running quickly and safely.

Openreach repaired copper and fibre faults on time 84% of the time – unchanged on last year. Missed appointments (where Openreach was responsible) happened just 3% of the time. 93% of customers got a first provision appointment within 10 days, up 10% compared to last year. This performance was recognised in best-ever NPS results for copper, fibre and Ethernet access.

84%
copper and fibre faults repaired on time

93%
customers offered a first appointment for provision within 10 days

3

Lead the way to a bright, sustainable future

We have always been committed to a more sustainable future. Today we are focusing on incubating new technology-driven growth opportunities and being a sustainable and responsible business.

Incubating new technology-driven growth opportunities

We want to find new areas to grow, while delivering better, smarter outcomes for our customers. We'll do this by incubating new technology-driven growth opportunities where we have a strong right to play and can deliver outstanding outcomes for customers and country.

Data is an example of an adjacent opportunity where we've recently been able to help customers and the country.

Over the course of the pandemic, we've provided aggregated and anonymised network data at the UK Government's request. For example, generalised data on the pattern of people's movements gave vital and timely insight into the effects of Covid-19 lockdowns and helped the Government test and improve its approach.

Governments, communications providers and regulators in the UK and worldwide all recognise the importance of this type of data in fighting the spread of the virus.

We believe our vast and rich data sets are important assets for future growth. But we also understand we have to closely protect and safeguard them to respect citizens' and businesses' fundamental rights and freedoms – especially privacy.

Our digital impact and sustainability strategy

Our strategic focus areas	**Building better digital lives**	**Championing responsible tech and human rights**	**Tackling climate change and environmental challenges**
Our ambitions	Reach 25m people in the UK with help to improve their digital skills, by end of March 2026	Develop, use, buy and sell technology in a way that benefits people and minimises harms	Adopt a sector-leading approach to climate action, with a target to become a net zero carbon emissions business by 2045
Supporting the UK's ambitions	The UK Government's Digital Strategy includes giving everyone access to the digital skills they need	The UK Government is committed to world-leading online safety measures that also support innovation and a thriving digital economy	The UK Government's target is to achieve net zero emissions by 2050
Contributing to the UN Sustainable Development Goals	4 Quality Education; 5 Gender Equality; 9 Industry, Innovation and Infrastructure	8 Decent Work and Economic Growth; 10 Reduced Inequalities; 16 Peace, Justice and Strong Institutions	12 Responsible Consumption and Production; 13 Climate Action

For more details about our digital impact and sustainability strategy and how we're performing against it, see our Digital Impact and Sustainability Report at **bt.com/sustainabilityreport**

Sustainable and responsible business

We believe the best way forward is paved with bold action, and being a sustainable and responsible business is critical to our ambition. For us, this is captured in our digital impact and sustainability strategy: helping people build better digital lives, championing responsible tech and human rights, and tackling climate change and environmental challenges.

Building better digital lives

We want to empower people to make the most of the digital world by supporting their daily lives, families, careers and businesses, and to help bridge the digital divide. Our programmes and campaigns enable customers to get the most from our products and services and strengthen relationships with all our stakeholders. At the same time, we're helping to create a tech-savvy workforce for the country and develop the talent we need for the future.

10m+
people reached with help to improve their digital skills since 2014/15 (a group KPI)

Skills for Tomorrow

Launched in 2019, our Skills for Tomorrow programme aims to help give people the skills and confidence they need to get the most from the digital world. The original aim was to help 10m people by the end of March 2026. We've made strong progress this year, and have already achieved that goal, reaching over 10m people since 2014/15. The pandemic led us to adapt our programmes to have a greater online focus, and consequently we've been able to reach many more people than we had originally anticipated. As a result of meeting our original goal, we've now extended the target, aiming to reach 25m people by the end of March 2026.

Work Ready

To boost social mobility and economic productivity, our Work Ready programme is helping jobseekers succeed in an increasingly digital world of work.

We reached over 10,300 people this year through webinars and events. Overall we've supported more than 13,700 people with employability skills since 2014. This year we also launched our Stand Out Skills campaign, reaching over 468,000 people – giving free support to job hunters to help build their confidence.

468,000+
people reached through our Stand Out Skills campaign

Small businesses

As part of our 25m Skills for Tomorrow target, we want to offer help to one million people working in small businesses to improve their digital skills. This year, we ran over 200 webinars and virtual workshops with Google, Small Business Britain and the Great British Entrepreneur Awards.

We launched a mentoring scheme in partnership with Digital Boost to support small businesses, with free advice from BT colleagues.

5.7m+
people learnt or did something new as a result of our Top Tips on Tech TV campaign

Top Tips on Tech

Launched during the first UK national lockdown, our Top Tips on Tech TV campaign taught viewers basic but vital digital skills. These included making a WhatsApp video call, keeping children safe online, getting a business online, and finding physical and mental wellbeing services on the web. As a direct result of the campaign, more than 5.7m people learnt or did something new. And 2.1m of them continued to put what they learned into practice afterwards.

Families

Barefoot, our partnership with Computing at School, is equipping children with key computing and problem-solving skills to help them thrive, through free resources and training provided to teachers. Barefoot has reached more than 3m children and teachers since 2014/15. This year, we extended Barefoot's scope to support children in their early years. And in response to the pandemic, we've introduced new home learning resources, including interactive learning games and activities, and expanded the free online resources for families available on our Skills for Tomorrow portal.

bt.com/skillsfortomorrow

We're helping older, more vulnerable, and digitally excluded people build confidence and skills too. Our partnership with Good Things Foundation (GTF) sponsored more than 80 online centres, providing skills training within local communities.

In order to focus our impact, we are scaling down our involvement in Barefoot and the online centres. We will continue to support the work of Computing at School and GTF, and help children and older and vulnerable groups in other ways.

Partnerships

Partnerships are central to our digital inclusion approach. We're a founding member of FutureDotNow, a coalition of leading companies and non-governmental organisations that aims to empower everyone to thrive in a digital UK.

With Microsoft and Cambridge University, we helped UNICEF scale up its pilot Digital Learning Passport campaign. It helped schoolchildren in need across five countries by providing free access to e-books, learning videos, recorded lessons and resources for teachers and children.

In India, we partner with the British Asian Trust to help boost youth skills, empowering more than 100,000 teenage girls through digital learning. And we continue to support the Quality Education India Development Impact Bond, which is boosting literacy and maths learning outcomes. Over 250 BT volunteers have supported these programmes.

Strategic progress continued

3 Lead the way to a bright, sustainable future continued

Championing responsible tech and human rights

This year, we launched our new responsible tech strategy. We want to make sure we develop, use, buy and sell technology in a way that consistently benefits society and minimises harm.

We aim to use responsible tech to differentiate existing products and propositions, and to help us grow in areas like health, connected homes and security. Responsible tech directly supports our ambition to be the world's most trusted connector of people, devices and machines. And it will differentiate us as customers seek to make ever more ethical buying decisions.

We base our responsible tech approach on these key principles:

For Good

We design and deliver tech to empower people and improve their lives.

Accountable

We're accountable for our actions and take care to avoid and protect against tech misuse.

Fair

We work hard to ensure everyone is treated fairly and with respect.

Open

We listen, collaborate and are transparent about our actions.

We follow all Modern Slavery Act requirements and international standards on human rights that apply to our business. These include the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights.

We continue to champion human rights through partnerships and collaborations, including our work with the Global Network Initiative, Tech Against Trafficking, the Marie Collins Foundation, the Centre for Sport and Human Rights and UK charity Unseen.

Our processes and procedures identify and address potential and actual human rights impacts throughout our business. We have embedded checks in our sales processes to help us find and address potential risks. In our supply chain, we have mandatory contractual standards on working conditions – and we check that our suppliers stick to them.

For more information, take a look at our modern slavery statement at **bt.com/modernslavery**

Tackling climate change and environmental challenges

We've led on climate action for almost three decades. In 2016, we hit our first science-based target of cutting our carbon emissions intensity by 80% – four years early.

We've since set a target to reduce our carbon emissions intensity by 87%, by the end of March 2031 (compared to 2016/17 levels) and have pledged to be a net zero carbon emissions business by 2045. Furthermore, this year we've extended the scope of our net zero pledge to include our supply chain, as well as increasing our target of reducing supplier carbon emissions by 42% by the end of March 2031 (previously 29%).

Overall, we've cut total carbon emissions[a] from our global operations by a further 29% over the last year, largely as a result of completing the switch to 100% renewable electricity globally and, to a much lesser extent, as the impact of Covid-19 led to lower in-year emissions from travel and heating. Since 2016/17, we've cut our carbon emissions intensity by 57% to 13.7 tonnes of CO_2e per £m value added.

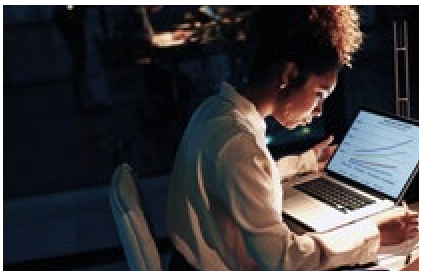
We're focusing on a number of things to support our ambitions:

- **Switching to renewable electricity –** 100% of what we consume worldwide in our networks, exchanges, offices and shops is renewably sourced[b]. We purchased over 2.5TWh of electricity this year.

- **Moving to a low carbon fleet –** BT and Openreach together operate the UK's second largest commercial fleet. Our almost 33,000 vehicles make up more than two thirds of our direct emissions (greenhouse gas scope 1). We're committed to switching nearly all our fleet to run on electric and alternative fuels by 2030. Joining forces with The Climate Group, we've launched a partnership (the UK Electric Fleets Coalition) to push for fleet decarbonisation and help develop policy measures that support electric vehicle uptake. We advocated for and supported the UK Government's ban on new petrol and diesel cars and light vehicles from 2030.
- **Decarbonising our buildings –** This year, our global energy consumption reduced by 123 GWh. This was mainly as a result of energy efficiency measures, including the reduction of our legacy network and our investments of nearly £21m in cooling projects, but also to a lesser extent due to the impact of Covid-19. Overall, our investments have helped us save £358m since 2009/10.

Last year we took action to increase energy efficiency through decarbonising our buildings. For more information, please see **page 39** of the Annual Report 2020. **bt.com/about**

- **Cutting supply chain emissions –** More than two thirds of our end-to-end carbon emissions come from our supply chain. We've cut our supply chain emissions by 19% since 2016/17, and are on track to meet our target of a 42% reduction by 2030/31. We're encouraging key suppliers to set their own net zero targets, buy renewable energy and talk to their own suppliers about climate action. We also have market-leading carbon emission reduction clauses into our key supplier contracts.



We're helping customers cut carbon too. Many of our products and services help them cut emissions by avoiding travel or by doing things more efficiently.

This year, we launched the green tech innovation platform, picking tech scale-ups iOpt and Everimpact to develop joint products and services that help public sector customers move to net zero. Using its Internet of Things platform to enable smart buildings, iOpt provides real-time information and alerts on the status of properties, with a focus on social housing. Everimpact is developing environmental monitoring for its smart streets proposition – air quality and CO_2 sensors will be integrated into street hub units to help monitor, report and verify climate actions, and in turn, sales of carbon offsets to finance climate action. We'll offer these products to UK local councils looking to adopt smart building and environmental monitoring solutions.

We're committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures. See **page 67** for more detail.

57%
reduction in our carbon emissions intensity since 2016/17 (a group KPI)

100%
of the electricity we consume worldwide is renewably sourced[b]

19%
reduction in our supply chain emissions since 2016/17, and on track to meet our 42% reduction target by 2030/31

Our worldwide energy use and greenhouse gas emissions[c]

Year ended 31 March

	2019				2020				2021			
	UK		Non-UK		UK		Non-UK		UK		Non-UK	
	Energy GWh[d]	CO_2e[e] Tonnes	Energy GWh	CO_2e Tonnes	Energy GWh	CO_2e Tonnes	Energy GWh	CO_2e Tonnes	Energy GWh	CO_2e Tonnes	Energy GWh	CO_2e Tonnes
Scope 1[f] (direct emissions)												
Gas and oil – heating	201	38,148	2	422	198	37,120	2	419	174	32,625	2	312
Gas and oil – generators	28	6,788	1	356	22	5,126	1	172	36	8,318	0.4	94
Fugitive emissions – refrigerants		1,049		1,040		1,571		628		1,150		2,433
Commercial fleet (converted from litres fuel)	498	123,358	NA	NA	512	125,263	3	723	506	121,733	3	723
Commercial travel (converted from mileage/cost/litres fuel)	33	8,259	23	5,462	29	7,298	20	4,847	9	2,229	8	1,805
Total scope 1	**760**	**177,602**	**26**	**7,280**	**761**	**176,378**	**26**	**6,789**	**725**	**166,055**	**13**	**5,367**
Scope 2[g] (electricity incl CHP[i])												
Total consumption (LBM[j])	**2,412**	682,935	**345**	128,319	**2,371**	605,976	**318**	111,955	**2,335**	544,279	**242**	80,399
Renewable consumption CO_2e MBM[k] adjustment	2,136	(604,771)	245	(92,702)	2,260	(577,672)	228	(82,887)	2,335	(544,279)	241	(80,136)
Nuclear consumption CO_2e MBM adjustment	–	–	0.04	(2)	–	–	0.03	(2)	–	–	0.02	(1)
Total scope 2 CO_2e MBM adjustment		**78,164**		**35,615**		**28,304**		**29,066**		**–**		**262**
Total scopes 1 & 2 (MBM)	**3,172**	**255,766**	**371**	**42,895**	**3,132**	**204,682**	**344**	**35,855**	**3,060**	**166,055**	**255**	**5,629**
Intensity metric scopes 1 & 2 worldwide emissions tonnes CO_2e per £m value added	**23.4**				**17.9**				**13.7**			
% change from baseline year 2016/17	**(26)%**				**(43)%**				**(57)%**			
Scope 3[h] worldwide emissions CO_2e tonnes	**3,405,146**				**3,471,692**				**3,454,525**			

NA: Not available

a Greenhouse gas scopes 1 and 2.
b 99.9% of the global electricity BT sources is renewable. The remaining 0.1% represents where markets don't allow due to non-availability of renewable electricity.
c We restate historical years' data when we think subsequent information is materially significant (e.g. replacing estimates with measured figures).
d For gas & oil based on GWh equivalent input value before combustion and GROSS calorific value.
e CO_2e: carbon dioxide equivalent emissions.
f Scope 1: direct emissions from our own operations (e.g. fleet/heating fuel combustion).
g Scope 2: indirect emissions from the generation of our consumed energy (mainly electricity) (excludes third party consumption).
h Scope 3: including supply chain, customer use of our products, and other indirect emissions (such as employee commuting).
i CHP: combined heat and power.
j LBM: location-based method for scope 2 emissions accounting – as defined in the Scope 2 Guidance amendment to the Corporate Standard.
k MBM: market-based method for scope 2 emissions accounting – as defined in the Scope 2 Guidance amendment to the Corporate Standard.

We report in line with the Greenhouse Gas Protocol (**ghgprotocol.org**).
For full methodology and further data see our Digital Impact and Sustainability Report **bt.com/sustainabilityreport**

Our stakeholders

Our internal and external stakeholders play a vital part in us building the strongest foundations, creating standout customer experiences and leading the way to a bright, sustainable future.

Our colleagues, customers, shareholders, the communities we do business in, suppliers, UK Government and regulatory bodies are all key stakeholders. We connect with them at all levels of our business. That includes frontline operations, customer-facing and corporate units, our senior leadership team, the *Executive Committee* and the Board and its committees.

We engage with stakeholders in lots of different ways – from virtual meetings and conferences to reviews, forums and webcasts.

To understand how well we're engaging with different groups, the Board and its committees receive regular updates and use them to make better decisions, and provide feedback and constructive challenge on activities, programmes and initiatives being considered.

This year we introduced a new stakeholder management risk category, recognising just how important they are to our business. You can read more on page 59.

Our Section 172 statement on pages 42 to 43 includes examples of how the Board and its committees had regard for stakeholder interests through its discussions and decision-making during the year.

Colleagues

Our ambition is only as strong as the foundations we're built on, and our colleagues are absolutely central to this.

Engaging with them is critical to achieving a culture where they can be their best and fully contribute towards realising our purpose, ambition, strategy and BT's long-term success.

We employ approximately 99,700 full-time equivalent colleagues in 44 countries. 80,400 are in the UK. We also engage with 1,700 colleagues through agencies and nearly 68,600 other non-regular staff.

Our colleagues want us to:

- share their personal values
- provide flexible and agile ways of working
- provide great career opportunities, development and training
- reward performance with fair and competitive pay and benefits.

How we engage with colleagues, and the result

The Board receives regular updates from the chief executive and the HR director (as appropriate) on our colleagues, progress against key people strategy initiatives, culture and overall sentiment within the organisation. The Covid-19 pandemic, combined with our cultural transformation programme, meant that wellbeing was a priority at the Board's discussions about colleagues this year. Given the focus in the organisation on diversity and inclusion, the Board also spent time discussing the diversity and inclusion strategy, how it supports the group's strategy, external targets, commitments and progress.

The Board uses the *Colleague Board* as its chosen method of engagement with the workforce under the UK Corporate Governance Code 2018 (Code). Isabel Hudson, as our designated non-executive director for workforce engagement, is the primary liaison and she has discussions with *Colleague Board* members both through the formal meetings and informal discussions. You can find more information on the work of the *Colleague Board* on the next few pages.

Once a year our colleagues tell us how it feels to work here through our Your Say engagement survey. With around 85% of colleagues taking part this year, this survey gives us a clear idea how they're feeling and helps us understand what more we can do to make BT a brilliant place to work. This year, we also wanted to know how colleagues were feeling as a result of the pandemic. Given the impact of Covid-19, we ran monthly 'pulse surveys' throughout the first four months of the year. This allowed us to review and adjust our approach to ensure it was effective in supporting our colleagues. Regular updates from the chief medical officer were a key part of the support provided.

Our People Networks are colleague-led groups that feed back thoughts, opinions and opportunities to our leadership team so we can make BT a properly diverse and inclusive place to work. Our People Networks are sponsored by one of our *Executive Committee* members or the CEO, Openreach.

Combined with listening directly to our colleagues, we also hear concerns through more formal engagement channels. They include our European Consultative Council, the Communications Workers Union, Prospect and EE employee representatives in the UK. These were shared and discussed with the Board via the chief executive and the HR director.

When we respond to feedback from colleagues, we first pick areas and initiatives that will make the biggest impact. Longer term, we continually shape and inform our overall people strategy to create a culture where colleagues can be their best – with a focus on skills development, diversity and inclusion, and health, safety and wellbeing. More on what we have done during the year as a result of engaging with our colleagues can be found on pages 24 to 25.

c.99,700

full-time equivalent colleagues employed in 44 countries

The *Colleague Board*

Who is the *Colleague Board*

Last year's Annual Report explained the Board's decision to create a *Colleague Board* as its chosen workforce engagement mechanism under the Code. The Board felt this was the right option for BT as it would allow for meaningful input from (and change for) colleagues across the group and give them a louder voice at the table. It also best represented our intent to bring our colleagues closer to decision-making and to engage with them to explore initiatives and proposals.

The *Colleague Board* comprises ten members representing all our business units, two Openreach invitees, Isabel Hudson, our designated non-executive director for workforce engagement, and the chief executive (the chair). Isabel was selected for this role due to her breadth of understanding and interest in employee and wider stakeholder matters. The chairman, HR director and general counsel are also invited and attend all formal meetings. The company secretary is secretary to the *Colleague Board* and she or her delegate attends all meetings. The HR, internal communications and company secretarial teams support Isabel Hudson and the *Colleague Board*. As part of engagement by other non-executive directors with our colleagues, Sara Weller has also decided to attend all meetings for the rest of 2021.

Colleague Board members have a two-year tenure. There will be an application process this year for new *Colleague Board* members from January 2022. For continuity, current members will be offered the opportunity to apply to remain on the *Colleague Board* for a further year.

Communication with the Board

As the designated non-executive director for workforce engagement, Isabel Hudson is the formal link between the *Colleague Board* and the Board, openly reporting back on key discussions and feedback to the Board and management, as appropriate. Outside of formal meetings, Isabel liaises with *Colleague Board* members, including attending their team meetings where appropriate. The minutes of each *Colleague Board* meeting are also shared with the Board and Isabel also reports back on *Colleague Board* feedback on any initiatives that the Board or its committees are considering, to allow the Board and management to use it to shape thinking.

Communications with our colleagues

Throughout the year, *Colleague Board* members gave feedback on their discussions and activities, and received input from colleagues across the business, in a number of ways:

- all colleagues are provided with the opportunity to feed into future *Colleague Board* agenda items and raise 'hot topics' via *Colleague Board* members for discussion at meetings
- summaries are posted on the intranet after each formal meeting and *Colleague Board* members also publish video messages on Workplace from Facebook (our internal communication platform) updating colleagues on proposals and initiatives and the *Colleague Board's* views and contributions
- *Colleague Board* members use a number of internal channels to exchange views and feedback. In addition to a Workplace group, which they manage themselves and use to talk directly and openly with other colleagues, *Colleague Board* members also hold group-wide all-hands calls
- colleagues also connect with BT's People Networks and forums to understand internal trends and priorities.

The chief executive also invites *Colleague Board* members to his regular leadership calls.

We are fortunate to have established the *Colleague Board* at a time when, given the tremendous challenges being faced as a result of the pandemic, hearing the views and experiences of colleagues is paramount. I have particularly enjoyed the 'hot topic' sessions at meetings, where there have been no holds barred!

Isabel Hudson, our designated non-executive director for workforce engagement and a member of the *Colleague Board*

It is inspiring to be able to share the positive feedback and concerns of our colleagues so that they genuinely feel heard.

Tom Hannibal, site support lead analyst, Consumer and *Colleague Board* member

Our stakeholders continued
The *Colleague Board* continued

The *Colleague Board* made an outstanding contribution in helping to shape our approach in a number of significant areas during their first year. I'm delighted with their engagement and involvement in a number of initiatives. It's exceeded my expectations in many ways!

Philip Jansen, chief executive and chair of the *Colleague Board*

We have been constantly involved in the plans for the Better Workplace Programme this year. Everything from the design of colleague surveys and discussing workplace habits, spaces and the technology we will use, through to Covid-19 measures and our wellbeing. I am really proud to have played a part in shaping BT's future workplaces for our colleagues to love.

Kate MacNicol, Senior service desk analyst, Enterprise and *Colleague Board* member

Activities in 2020/21

The *Colleague Board* held four formal meetings this year. It also held a number of informal meetings and briefings with relevant internal teams. In its first 15 months, the *Colleague Board* has successfully contributed to, and shaped, some of our key initiatives by sharing views and different perspectives. Through both formal meetings and informal sessions, our senior leaders seek the *Colleague Board's* views on business-wide programmes (including how they align with our values and culture), how we communicate with our colleagues and the effectiveness of wider colleague engagement mechanisms (like the Your Say employee engagement survey). The meeting agendas are primarily driven by the *Colleague Board* members, working with the company secretarial team.

The *Colleague Board's* main highlights to date are:

- helping the Board understand employee sentiment through the pandemic, including the importance to colleagues of receiving regular communications. It also shaped the content, approach and communication of wellbeing campaigns to support our colleagues through the pandemic
- giving advice to the chief executive and *Executive Committee* on our new purpose and reaffirmed values and taking an active role in the subsequent communications to colleagues
- discussing the need to simplify and improve our systems, and accelerate our transformation programme and digitalisation agenda
- assisting the development and shaping of the Better Workplace Programme (see page 25). That included giving feedback on key design principles to reflect different colleagues' needs, shaping our communications and engagement and helping to design success measures for the programme
- helping expand our Ethnic Diversity Network and create a new Americas arm to support our diversity and inclusion strategy and giving feedback on our Ethnicity Rapid Action Plan (see page 24). The *Colleague Board* was also one of the key internal promoters to encourage our colleagues to complete the UK-wide self-declaration campaign on the diversity of our UK colleagues. The composition of our UK colleagues from a diversity perspective has been invaluable in helping the Board and management shape our diversity and inclusion strategy
- highlighting key issues and colleagues' concerns as part of 'hot topics' open discussion sessions at meetings during the year. This has included insights into the importance of timely and regular communications from senior management on key business developments and the impact of restructuring plans on colleagues, as well as the need for communications and initiatives to better reflect the perspectives of our global colleagues, and to ensure our sales teams have better insight into the product and services roadmaps for different customers
- launching the *Colleague Board's* ambition with a focus on:
  - diversity and inclusion bringing an equilibrium
  - being your best self
  - being proud to be at BT
  - making wellbeing part of our DNA
- discussing BT's role and plans as a sustainable and responsible business, and how to increase colleague involvement, as well as sharing feedback on our digital impact and sustainability strategy
- providing feedback on how to better communicate career and reskilling opportunities for our colleagues in line with the shifting focus of the business over the medium to long term and the need to have clearer development programmes for mid-level managers
- suggesting improvements to our communication methods across the business, particularly in relation to changes in areas such as policies, share plans and recognition.

Customers

We want to give all our customers standout experiences by delivering brilliant solutions and outcomes.

We have a large and diverse customer base including consumers, businesses, multinational corporations, public sector organisations and communications providers. Engaging with our customers and understanding their needs is critical to delivering on our strategy, ambition and purpose.

Our customers want us to:

- give them an outstanding experience and deliver outcomes that meet their needs
- provide reliable solutions and propositions to keep them connected
- protect their security and data.

How we engage with customers, and the result

There are lots of different ways we engage with our customers. At the early stage of developing new solutions, we work with them to understand their needs and make sure what we sell – and their overall buying-to-billing experience – is the best it can be.

Our insight centre of excellence serves all parts of BT and gives us a strong analytical capability that delivers a deeper understanding of what customers want and need. We use a number of different methodologies and data sources to understand what customers expect, and how they act, across different channels. This insight helps shape our strategy, position our solutions, design customer-driven improvements and develop our brand and communications.

See pages 26 to 29 for things we have done during the year to create standout experiences for our customers.

Our Global Advisory Board enables us to talk directly with senior leaders at our major global customers. It helps us understand their short-, medium- and long-term priorities, so we can design solutions that match them – delivering better business outcomes.

Each customer-facing unit CEO and management team tracks how well their business is performing on customer experience, including NPS, so that collectively we deliver on our ambitions in this area. Regular reviews with *Executive Committee* members – led by the chief executive and chief financial officer – focus on how to continually improve performance.

This year we built stronger, more trusting relationships with customers with a range of initiatives to support them through the Covid-19 pandemic. They included a Lockdown Learning support package for consumers and our Small Business Support Scheme for business customers.

There's more information on these initiatives and others on **pages 28 to 29**.

Openreach continues to make sure all its customers get equal access to our fixed network. It does this by ensuring that its industry consultation process is straightforward and compliant, with strong governance controls. All communications providers have the opportunity to engage with Openreach confidentially during an initial consultation stage.

The chief executive, *Executive Committee* and senior BT leaders regularly review and discuss complaints directly with customers. It keeps them connected to issues on the ground, allows them to have a better understanding of how to fix common problems and helps us improve the way we respond to complaints.

Our customers and the impact on them are always considered by the Board and the chief executive (with input from the *Executive Committee*) as part of decision-making – whether on strategic direction, investments or the solutions we develop. The Board regularly receives updates on, and discusses, customer experience and the NPS for the group as a whole, customer-facing units and underlying customer segments. The Board also discusses initiatives having a positive impact on our customers, key focus areas and areas for improvement.

This year, as part of her Board induction, Sara Weller joined two customer inclusion panel sessions. These are BT forums where groups representing vulnerable customers and people with disabilities help improve our products and services. Sara has also observed a number of customer research panels with Consumer and SME customers to hear their views on current service and future priorities. This type of engagement gives us valuable insights for Board and committee discussions and decision-making.

The Board understands how important it is to act proactively to protect consumers' interests and meet the expectations of the regulator and Government for greater commitment to a culture of consumer fairness at all levels within communications providers, including at Board-level.

To enhance our commitment to protecting consumers' interests, the Board approved proposals to enhance our consumer fairness governance framework with Board-level oversight provided by the *BT Compliance Committee* on consumer fairness matters (see page 86 for more details).

There's more information on consumer fairness within our Section 172 statement on **page 43**.

7.8pp

percentage points improvement in group NPS (a KPI)

Shareholders

We have two main groups of shareholder: institutional and retail investors. As owners of the business, engagement with them is important.

Because of our privatisation in 1984, a lot of our c.783,000 shareholders are individuals, although institutional investors hold the biggest volume of shares. We also have debt investors.

Our shareholders want us to:

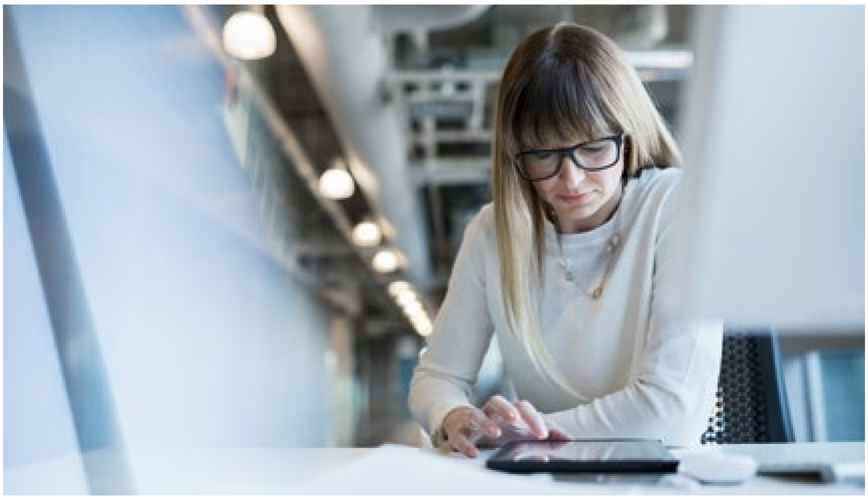
- deliver a return on their investment through dividends or capital growth
- perform well against our outlook and long-term strategy.

How we engage with shareholders, and the result

We communicate regularly with shareholders through our website, the Annual Report and our quarterly financial results and trading statements.

The AGM is normally a chance for the Board to meet and engage with shareholders in person. However, as a result of the pandemic, the 2020 AGM had to be held as a closed meeting in line with Government restrictions on public gatherings. We gave shareholders the opportunity to ask questions in advance and the responses were made available on our website via an audio recording alongside video messages from the chairman and the chief executive and an audio recording of the meeting itself. For the 2021 AGM, we continue to monitor the situation and we will publish the arrangements in the Notice of meeting (see page 77).

The company secretary communicates with individual investors, making sure we respond properly to questions in relation to their shareholding. Our share registrar Equiniti also has a team to take care of shareholders' needs.



We manage relationships with institutional investors through an investor relations programme. It includes one-to-one conversations, roadshows, group meetings, conferences and industry events. The chairman, senior independent director and other directors also spend time with investors.

The pandemic has meant significant changes to the way we interact with institutional shareholders. All our meetings were virtual, and this meant that it was easier for more investors to attend each group meeting, leading to fewer meetings over the course of the year.

During 2020/21, the Board, the chief executive, chief financial officer, other executives and the investor relations team held 262 meetings with investors. Conversation topics included financial and operational performance, capital investment, pension deficit funding plans, capital allocation policy and prospective governmental and regulatory policy decisions.

During the year, the chairman also met investors to discuss any governance related matters. The senior independent director also engaged with investors in relation to the ongoing search for the new chairman.

Ahead of the 2020 AGM, the *Remuneration Committee* chair consulted extensively with our largest shareholders and their representative bodies and their feedback was used to help shape the Directors' Remuneration Policy.

The Board receives regular reports on shares being bought and sold, share price performance and how we're engaging with institutional investors and analysts. The Board also discusses any shareholder issues with management.

We maintain a strong relationship with debt investors (mainly financial institutions who invest in our publicly-traded bonds) and meet with them regularly as part of our investor relations programme. They're crucial to making sure we have access to debt capital to finance our business.

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

262

meetings with investors during the year

Communities

Our products, services, networks and people are at the heart of the communities we operate in, and help bring them together.

Building and preserving relationships with all the communities we serve isn't just core to our commercial success. It's also key to the way we operate as a responsible and sustainable business and supports our purpose of connecting for good.

Communities rely on us to:

- give them reliable and secure connections
- help local people and enterprises get more from the digital world
- protect the environment, help tackle issues like climate change and do business ethically and responsibly.

How we engage with communities, and the result

We reach communities in all aspects of day-to-day life, such as conversations with customers in EE/BT retail stores and when visiting individuals in their homes to set up their broadband service. We engage with charities, non-governmental organisations and partners on digital skills programmes. We also undertake research to understand the topics that are most important to communities when they think of BT.

The insights we get inform the strategies and programmes we develop, from digital skills to climate change action. On behalf of our Board, the *Digital Impact & Sustainability Committee* approves our strategy and monitors our progress as a responsible and sustainable business. It also makes sure we're contributing positively to the communities we live, work, and operate in.

This year, the *Digital Impact & Sustainability Committee* approved a change in approach to our Skills for Tomorrow programme, and its pivot to become 'digital-first' as a direct result of Covid-19, to make sure we could still reach all those who needed help most with digital skills. This also led to a bigger focus on supporting job seekers and SMEs – both groups severely affected by the pandemic.

On top of what we invest through our day-to-day business, we aim to invest 1% of profit before tax, as a mixture of cash and in-kind investments, in our sustainability activities and communities. This year, we invested £18m or 0.63% of adjusted profit before tax – below our 1% target. That was because of our 'in-kind contributions' falling, with Covid-19 severely restricting volunteering activity. We remain committed to the target – having invested £147m into our sustainability activities and communities, at an average of 0.89% of profit before tax over the last five years.

During the year, we worked with the UK National Emergencies Trust to support many communities through the Covid-19 pandemic. We helped fund its operations and gave other digital skills support to help people harness technology to stay safe, healthy, connected and resilient. We've supported communities through the pandemic in many other ways too, such as launching our Lockdown Learning support package for families and children most in need of help to continue learning at home.

To track how we're doing, we measure reputational performance and trust, as well as our progress on the group KPI to reach 25m people in the UK with help to improve their digital skills by the end of March 2026. You can find out more about what we've done this year in the strategic progress section. Page 31 explains the contributions we've made to building better digital lives, and pages 32 to 33 set out how we're tackling climate change and environmental challenges for the benefit of the communities we operate in.

10m+

people reached with help to improve their digital skills since 2014/15

£147m

invested in communities and our sustainability activities over last five years

Suppliers

Our relationships with suppliers are instrumental to our success. They help us deliver the solutions and propositions we use to create standout customer experiences.

We source from across the world, with suppliers in nearly 100 countries.

Our suppliers want us to:

- pay them in line with our agreed terms
- act ethically and transparently
- help them optimise their own supply chains.

How we engage with suppliers, and the result

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

- choose suppliers based on principles that make sure we act ethically and responsibly
- undertake due diligence on them before and after we sign a contract – covering financial health, anti-corruption and bribery, and whether they meet our standards on areas such as quality management, security and data privacy
- check the things we buy are made, delivered and disposed of in a socially and environmentally responsible way
- measure suppliers' energy use, environmental impact and labour standards, and work with them to improve these.

Our stakeholders continued

During the year, we announced and progressed a plan to set up a standalone procurement company, BT Sourced, which will manage most of our purchasing. The new company will improve our already strong relationships with suppliers by making it easier for them to do business with us and creating more chances to innovate. It will also challenge some traditional ways of buying goods and services through simplifying processes, bringing in new technology and encouraging more collaboration.

In order to get new suppliers on board faster, we're moving a lot of our processes from manual to digital, whilst still maintaining the existing rigour in our due diligence and assurance.

This year the *Audit & Risk Committee* discussed our supply chain landscape, performance across the sourcing and supplier payment process, and the key risks and assurance activities in this area.

The committee was also updated on our progress against the Government's Prompt Payment Code (PPC) programme in the UK and our consistent improvements in payment performance. This year, we paid 95% of supplier invoices in line with the terms we'd agreed with them. Recent reforms to the PPC require us to pay 95% of invoices from smaller suppliers in 30 days, and we're on target to do this by the 1 July 2021 deadline.

During the year, the Board discussed the Government's evolving advice on high-risk vendors (including Huawei) and the development of both the Telecommunications (Security) Bill in the UK and US government restrictions, and the potential procurement and commercial implications for BT. The Board reviewed and approved the entering into of contracts with Nokia and Ericsson and the split of the services provided by these two vendors across our UK sites.

The *Digital Impact & Sustainability Committee* considers and approves our modern slavery initiatives on behalf of the Board, which we subsequently disclose in our annual modern slavery statement.

We engage with suppliers on a range of proactive initiatives – for example progress towards net zero carbon emissions, including the increased uptake in renewable energy, and cutting plastic packaging and waste. This is a key part of our digital impact and sustainability strategy (see page 30) and therefore initiatives are regularly discussed by the *Digital Impact & Sustainability Committee* with feedback shared to continue to test and enhance our approach.

On diversity and inclusion, we've developed a plan to encourage and help our suppliers to meet and match our own commitments. We've also taken more diversity-led steps in our dealings with suppliers. They include participating in SME events like 'meet the buyer' and benchmarking ourselves via external organisations.

We're keen to make sure we engage with as broad a range of suppliers as we can. We're discussing how we create a more diverse supplier selection process with software suppliers, and next year we'll increase the purpose/diversity weighting we use in the procurement adjudication process.

A clear framework monitors Covid-19 risks for 430 critical suppliers. It:

- assesses the potential effects of transport logistics disruption and manufacturing slowdowns
- monitors suppliers' financial viability and tracks incremental costs due to disruption
- continuously monitors their business continuity plans to make sure they can keep delivering services.

£13.1bn

spent with suppliers, more than two thirds of our total costs

71%

spent with top 100 suppliers

UK Government

We add over £24bn to the UK's economy each year, supporting critical services and working with more than 1,600 public sector customers.

Our networks make sure vital public services like welfare, tax, health, social care, police and defence function, while protecting citizens' personal data. Our relationship with Government bodies underpins our three strategic pillars and lets us contribute to policies and initiatives that promote the best stakeholder outcomes.

Government stakeholders want us to:

- keep investing in our network infrastructure
- provide the fastest, most reliable and secure connection possible, to the widest possible range of communities
- invest in the best products and services, at fair prices, with high levels of customer service.

How we engage with the Government, and the result

We operate the UK's Critical National Infrastructure and support national security. Our priority is fulfilling our responsibilities and obligations for the country and our customers.

Our policy and public affairs team manages our relationships with Government and other politicians.

Our Enterprise team delivers and looks after public sector contracts and services such as the Emergency Services Network.

Under the Communications Act 2003, the Government can ask us (and others) to run or restore services during disasters. The Civil Contingencies Act 2004 also says that the Government can impose obligations on us (and others) in emergencies, or in connection with civil contingency planning.

We keep an open dialogue with Government through our chairman, chief executive and senior leaders – as well as through consultation responses and cross-industry initiatives. Through those conversations we build support for policies that will deliver good results for the UK and our shareholders.

Our public policy work with Government covers a wide territory, from infrastructure investment to national security, from regulating online harms to trade and economic policy. For example, this year we launched a programme with the Department for Education to give free BT Wi-Fi vouchers to disadvantaged families to make sure their children could continue to learn at home while schools were closed during Covid-19 lockdowns.

We also helped the wider Government response through text message alerts sent on behalf of GOV.UK to around 43m devices connected to our mobile network, and gave tailored support to NHS staff and vulnerable customers.

We'll continue offering as much support as possible to Government and NHS teams to help them during the pandemic. That includes providing connectivity to hospitals and vaccination centres.

The Board is updated on discussions with Government through the chairman, chief executive and *Executive Committee* members, with the Board providing views and comments.

Regulators

Communications and TV services are regulated. This ensures consistent rules and standards within each jurisdiction, protecting consumers and promoting competition.

If we don't engage effectively with our regulators we risk unnecessary regulatory intervention that could stand in the way of us achieving our strategy.

Our main regulatory relationship is with Ofcom in the UK. The main source of Ofcom's powers and duties is the Communications Act 2003, which gives it general competition powers for the sector and helps it enforce consumer law.

We also engage with other regulatory bodies like the Competition and Markets Authority.

Ofcom wants to:

- advance citizens' and consumers' interests, often by promoting competition
- encourage investment and innovation
- support investment in the UK's critical digital infrastructure.

How we engage with Ofcom, and the result

We have a positive and open dialogue with Ofcom through our chairman, chief executive and senior leaders.

Our conversations focus on how regulation can support its ambition for a world-class UK digital infrastructure and allow efficient investment, while keeping the market fair and competitive.

There are more details of the main regulatory topics we cover with Ofcom on **pages 16 to 17**.

We're briefing Ofcom regularly on our Covid-19 response. It has welcomed our efforts to support customers and work with industry to help UK people and businesses stay connected during the pandemic.

Following Ofcom's 2017 Digital Communications Review, we implemented a set of Commitments and the supporting Governance Protocol. These provide Openreach with more strategic and operational independence, while allowing us to exercise the right level of parent company control.

The *BT Compliance Committee* monitors BT's compliance with the Commitments. It also reviews the progress being made in areas of greatest importance to consumers, communications providers and other stakeholders. The committee seeks views on the Commitments from stakeholders, and keeps Ofcom updated including through the annual review of the *BT Compliance Committee*.

The *BT Compliance Committee's* annual review can be found at **bt.com/btcc**

Ofcom says that BT and Openreach are still making good progress to safeguard Openreach's independence. We continue to engage with Ofcom and communications providers to increase their confidence that we're following both the letter and spirit of the Commitments.

Section 172 statement

In their discussions and decisions during the year ending 31 March 2021, the directors of BT Group plc have acted in the way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to stakeholders and the matters set out in sub-sections 172(1)(a)-(f) of the Companies Act 2006 (the 2006 Act).

The Board considers the matters set out in section 172 of the 2006 Act in all its discussions and decision-making. That includes:

The likely consequence of any decision in the long term:

The directors recognise that the decisions they make today will affect BT's long-term success. During the year, the Board had particular regard to the long-term success of the company in its discussions on the evolution of the company's purpose and strategic framework, as set out in the Board activities section on pages 74 to 77. Our purpose and strategy demonstrate how we will realise our ambition and grow value for all our stakeholders. This in turn guides the Board's decisions, specifically the balance between short- and long-term investments (more details on page 43). The third pillar of our strategy (lead the way to a bright, sustainable future) incorporates our aim to identify and develop new business opportunities that will help us grow sustainably in the future. More information on our strategy can be found from page 19.

The impact of BT's operations on the community and environment:

The *Digital Impact & Sustainability Committee* monitors progress on the digital impact and sustainability strategy and supporting goals for digital skills, responsible tech and human rights, and climate change and the environment. During the year, the committee reviewed and endorsed the Skills for Tomorrow programme and its pivot to become 'digital-first' during the Covid-19 pandemic. Our digital impact and sustainability strategy incorporates responsible tech and human rights, and our sector-leading approach to climate action, with a target to become a net zero carbon emissions business by 2045, as well as our two related group KPIs (see pages 30 to 33).

We are also committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). See page 67 for our response to TCFD.

The desirability to maintain a reputation for high standards of business conduct:

The Board acknowledges its responsibility for setting and monitoring the culture, values and reputation of the company. Our colleagues are central to us achieving our ambition and we are building a culture where our colleagues can be their best. During the year, the Board considered BT's culture in its decision-making and discussions; further details on this can be found on page 76. The *Digital Impact & Sustainability Committee* reviewed and endorsed BT's new responsible tech and human rights approach which aims to develop, use, buy and sell technology in a way that benefits people and minimises harms (see page 87 for more details on the activities of the *Digital Impact & Sustainability Committee* and page 30 for our digital impact and sustainability strategy).

The *Audit & Risk Committee* also received and considered regular reports from the group ethics and compliance director on BT's ethics and compliance priorities, including Speak Up, our confidential, whistleblowing hotline (see page 85).

We set out our commitment to high standards of business conduct in The BT Way (our Ethics Code), see **bt.com/ethics**

The interests of our colleagues, and the need to foster business relationships with our key stakeholders:

The Board and its committees understand the strategic importance of stakeholders to BT's business. When making decisions, the directors have regard to the interests of colleagues, and the need to foster business relationships with other key stakeholders. We acknowledge that not every decision we make will necessarily result in a positive outcome for all our stakeholders; the Board therefore has to balance competing interests in reaching its decisions.

While the Board engages directly with stakeholders on some issues, the size and distribution of BT and our stakeholder groups means that stakeholder engagement often happens below Board level. However, the Board considers information from across the organisation to help it understand how our operations affect our stakeholders' interests and views. There are more details on how we engage with key stakeholders (including customers and suppliers) on pages 34 to 41 and on the chief executive's role in reporting engagement feedback to the Board through his chief executive's report on page 75. For further details on how the Board operates and makes decisions, and its activities this year, see pages 71 to 77.

Our colleagues are key to our success and they are always considered as part of the Board's discussions and decision-making. Their wellbeing, especially during the Covid-19 pandemic, as well as diversity and inclusion, our culture, transformation programme and employee relations, have been a prominent focus of Board discussions this year (see page 76 for more details). The Board engages with colleagues primarily through the *Colleague Board* and via Isabel Hudson, our designated non-executive director for workforce engagement (see pages 35 to 36 for more details on the *Colleague Board*). Isabel provides feedback after each formal *Colleague Board* meeting and also discusses any topics raised by members at relevant Board and committee meetings.

Our other employee communication channels are set out on page 34. As explained on page 76, the Board also discussed with HR and the chief executive the findings from other colleague engagement mechanisms during the year.

The need to act fairly as between BT's shareholders

During 2020/21, the Board, the chief executive and chief financial officer, other executives and the investor relations team held various meetings with investors (see page 38 for more detail on our engagement with shareholders). These meetings gave investors the opportunity to discuss views on financial and operational performance, capital investment, pensions, capital allocation policy, as well as prospective governmental and regulatory policy decisions.

Decisions made during the year:

The following are some of the decisions made by the Board this year which demonstrate how colleague interests, the need to foster business relationships with other key stakeholders, and other section 172 matters have been taken into account in discussions and decision-making:

Decision	What happened
Suspending our final dividend for 2019/20 and all dividends for 2020/21	As set out in last year's report, the Board made the exceptionally difficult decision to suspend the final dividend for 2019/20 and the dividends for 2020/21 and rebase future dividends at a more sustainable level. The Board considered the advantages and disadvantages of the decision and the change to the distribution policy, including whether suspending our dividend was the right action to ensure our long-term success. The views of our stakeholders, particularly the expected reactions of our equity investors, which includes our colleagues, and the nominated representative for Deutsche Telekom (BT's largest shareholder), as well as our brokers' opinions on the expected reactions from the market, were taken into account. The Board carefully considered the short term negative effect on our shareholders, but determined that taking the decisive action to suspend our dividends now would position BT positively for the future and help us create capacity for value-enhancing investment opportunities, including full fibre and 5G, our major modernisation and simplification programme, and to navigate the shorter term impact and unprecedented consequences of the Covid-19 pandemic.
Strategic intent to accelerate full fibre build to 20m premises by mid-to-late 2020s, subject to the critical enablers being resolved	The Board had a number of discussions on its commitment to the level and pace of the full fibre build, capital expenditure required, the risks involved, how it would flow through into our medium term plan and the regulatory enablers required from Ofcom as part of the WFTMR. The Board carefully considered how a commitment to accelerate our full fibre build to 20m premises by the mid-to-late 2020s would affect our ability to pay a dividend to our shareholders in the short term, balanced against benefits to other stakeholders in the long term, including customers, colleagues, shareholders and the country as a whole. This included the importance of the full fibre rollout to our purpose, we connect for good, and our reputation as a national champion. Despite us not obtaining regulatory clarity until the publication of the WFTMR in March 2021, the Board recognised the importance of providing clarity to shareholders, the market, our regulator, Ofcom and the UK Government on our proposed intention to invest, ahead of the final publication of the WFTMR. For more details on the WFTMR and our target to increase and accelerate our FTTP build plan by an additional 5m from 20m to 25m premises by December 2026, please see pages 16 and 20.
Endorsement of proposed diversity and inclusion targets	The Board received and considered management's proposal in relation to the planned publication of our diversity and inclusion targets and commitments in relation to gender, ethnicity and disability. The Board was supportive of this and the voluntary publication of our ethnicity pay gap, through our inaugural Diversity and Inclusion Report (which we expect to publish in early summer 2021), having reflected on how targets and commitments would support the progress of our strategy and our approach to valuing diversity, embedding inclusion and progressing equality. The Board discussed that having clear targets will also help support cultural shifts and drive a more inclusive workforce, and accordingly recommended that BT should be bold in its ambitions in this area, which management also agreed with. The Board advised that as part of meeting our targets, it was important to consider all aspects of our colleague journey, talent pipeline, recruitment and the ongoing support provided to under-represented groups as they progress through the organisation. The *Colleague Board*'s feedback on how we improve diversity was also shared with the Board by Isabel Hudson, our designated non-executive director for workforce engagement, including the importance of diversity on assessor panels for graduate and apprenticeship assessment centres to ensure we recruit in line with the diverse skills we need for the future. The Board considered the interests and expectations of our stakeholders as part of this decision, including those of our colleagues and investors, and the UK Government given their recent reviews in this area.
Enhancing our consumer fairness governance framework	The Board approved proposals to enhance our consumer fairness governance framework during the year. In considering these proposals, the Board had regard to both the importance that BT places on consumer fairness for our customers, as well as Ofcom's and the UK Government's expectation to see greater commitment to a culture of consumer fairness at all levels by communications providers. This enhanced governance in relation to consumer fairness is aligned with BT's purpose and ambition and the Board's broader recognition of the importance of proactively protecting our customers' interests as set out on page 86. Having considered a number of options in relation to enhanced governance, the Board decided that the remit of the *BT Compliance Committee* should be widened to include the oversight of consumer fairness matters on its behalf. Therefore, from 1 April 2021, the *BT Compliance Committee* shall monitor whether BT is living up to Ofcom's Fairness for Customers commitments, whether the culture and behaviours of colleagues are conducive to BT being trusted in relation to consumer fairness, and the extent to which BT is meeting the desired outcome of being trusted in relation to consumer fairness. More details on consumer fairness can be found on page 17.

Non-financial information

The table below (and sections referred to) form our non-financial information statement – as required by sections 414CA and 414CB of the Companies Act 2006.

	Environment (see pages 32, 33, 42, 47 and 67)	Colleagues (see pages 24, 25, 34 to 36, 42 and 43)	
Description of policies	Our **Environmental Policy** supports our aim of cutting our environmental impact and helping customers cut theirs. It sets out guiding principles to get us to our ambition of becoming a net zero carbon emissions business by 2045. And it describes how we engage with stakeholders on environment issues and monitor and report on progress. It supports our strategy by describing how we'll realise our ambition to create a more sustainable future for ourselves and our customers. Our Environmental Policy can be found at **bt.com/ourpolicies**	Our **Health, Safety and Wellbeing Policy Statement** promotes a safe and healthy workplace and aims to prevent work related injuries, ill health and diseases. It supports our strategy to build the strongest foundations. It does this by integrating health, safety and wellbeing considerations into all aspects of our work to benefit colleagues, contractors and members of the public. Our Health, Safety and Wellbeing Policy Statement can be found at **bt.com/ourpolicies**	Our **Diversity and Inclusion Strategy** supports our aim to build the strongest foundations. It does that by ensuring we apply an inclusion lens across how we operate – and by promoting a culture where all our colleagues can thrive. It sets out a programmatic, evidence-based approach to understanding and removing bias and other cognitive barriers from BT policies, processes, systems and decision-making. Our Diversity and Inclusion Strategy can be found at **bt.com/diversity-and-inclusion**
Description of due diligence	We monitor and manage our environment strategy and risks through the *Digital Impact & Sustainability Committee*, and also through our Environmental Management Governance Group, which reports to the *Executive Committee*. We measure progress on different environment goals, one of which is a group KPI (page 47). We review and update the policy every year.	We allocate suitable resources to build a safe and healthy workplace. That includes policies, training, processes and effective risk controls. We monitor safety and wellbeing with a 'three lines of defence' model. We track and review accidents, near misses and reasons for sickness absence. We look at why accidents, injuries and near misses happen, to stop them happening again. We monitor sickness absence trends, adapting processes to better support colleagues. We review policies annually and update them as appropriate.	We regularly report to the *Executive Committee* on the strategy's relevance and effectiveness, including robust monitoring against our Ethnicity Rapid Action Plan and broader strategy.
Description of outcomes	See pages 32 to 33 for our plans and performance on the environment and tackling climate change, including progress made towards becoming a net zero carbon emissions business. Additionally, details of performance against our group KPI target to cut our carbon emissions intensity of our operations by 87% by the end of March 2031 is on page 47.	There are details of actions taken in pursuance of our policy, along with sickness absence rates and time lost from injuries, on pages 24 to 25.	Our strategy creates an environment and workplace that embraces diversity and inclusion and includes it in all decision-making. Details of the things we've done this year to support our strategy, together with some of our latest diversity and inclusion statistics, can be found on pages 24 to 25.
Description of risks	We consider the impacts of climate-related risks across our whole business, for example in our stakeholder management and service interruption group risk categories on pages 59 and 62. We're taking action to mitigate key physical climate risks and our impact on the environment in a number of areas. See pages 32 to 33 and our TCFD statement on page 67 for more details.	We capture health, safety and wellbeing risks within a dedicated group risk category, as set out on page 64.	We reflect diversity risk within our people group risk category, as set out on page 64.

We describe our business model on pages 12 to 13. And we set out the non-financial KPIs relevant to us on pages 46 to 47.

Social and community (see pages 31 to 33, 39, 42 and 47)	Human rights (see pages 32 and 42)	Anti-bribery and corruption
Our **Shared Value Policy** explains how we invest in society, including our aim to invest at least 1% of our adjusted profit before tax each year. Investments under this policy support areas like digital skills through a mix of cash and in-kind contributions. Investing in society helps us be a more responsible and sustainable business leader. It also supports our purpose; we connect for good. Our Shared Value Policy can be found at **bt.com/ourpolicies**	Our **Human Rights Policy Commitment** explains our commitment to respecting and championing human rights across BT and in our relationships with others. It describes our approach to respecting rights and freedoms, positioning these in a digital context. Being a human rights leader and having strong ethical standards builds trust. So it's key to our ambition to be the world's most trusted connector of people, devices and machines. Our Human Rights Policy Commitment can be found at **bt.com/ourpolicies**	**The BT Way** (our **Ethics Code**) sets out our zero tolerance approach to bribery and corruption. It's supported by a specific Anti-Bribery and Corruption (ABC) Standard. It describes our values and behaviours, and how we expect everyone who works for us (or on our behalf) to do business. It also covers additional key policy areas like human rights, and equality and diversity. The code provides an ethical framework for our ambition to become the world's most trusted connector of people, devices and machines. It demonstrates, through our commitment to doing the right thing, that our stakeholders can depend on us. The BT Way (Our Ethics Code) can be found at **bt.com/ethics**
The *Digital Impact & Sustainability Committee* oversees this policy. It also reviews our strategy and progress on societal programmes and targets. You can read more about the role of the *Digital Impact & Sustainability Committee* on page 87. The *Digital Impact & Sustainability Committee* monitors progress against the revised group KPI of reaching 25m people with help to improve their digital skills by the end of March 2026. We review and update the policy every two years.	We have processes to identify and address potential and actual human rights impacts across our business. They include embedded checks in sales processes, and in how we manage suppliers. We also provide targeted training to those teams most likely to encounter human rights issues. We identify, measure and tackle human rights impacts through people surveys, supplier questionnaires and risk assessments and through the Speak Up whistleblowing service.	All BT colleagues complete mandatory training on the code and get periodic communications that reinforce policies – including targeted 'teaser' questions. Our annual Your Say employee engagement survey includes questions on ethical perception, with results shared with senior management. Our Speak Up service lets anyone who works for, or with, BT to confidentially report anything that goes against our Ethics Code – including bribery, corruption, human rights violations, bullying or harassment. We undertake due diligence on third parties, engage external providers to assess higher risk areas, and use an integrity risk dashboard to identify potential focus areas. We review and update the code regularly.
We report on how we invest in initiatives and communities on page 39, and there are details of what we've done this year on pages 31 to 33, including progress made in helping people improve their digital skills and in reducing our carbon emissions intensity (both group KPIs).	This year, we carried out a self-review against the Global Network Initiative principles, in preparation for an external assessment next year. We've used what we found to strengthen our human rights governance and processes.	We track discipline case numbers and their outcomes, including colleagues who leave BT for ethical misconduct. This year, 95,825 colleagues completed training on the parts of the Ethics Code that are relevant for them, and 23,738 colleagues completed our ABC course for higher risk roles. We are using the results of an external ABC risk assessment conducted this year to enhance and better target our compliance activities. Speak Up received 491 reports this year. You can find more details on these in our Digital Impact and Sustainability Report at **bt.com/sustainabilityreport**
We consider digital inclusion risks as part of our stakeholder management group risk category on page 59.	We consider human rights risk as part of our stakeholder management group risk category on page 59.	We consider risks on ABC and ethical conduct relating to our suppliers within the third party management group risk category, and within the legal compliance group risk category where risks apply across our operations generally. You can read more on pages 66 and 61 respectively.

Our key performance indicators (KPIs)

We hit our operational targets for the year, but we want to go further. Overall our financial results were in line with the guidance we gave in July 2020[a].

This year, we continued to refine the KPIs we use to track progress against our strategy. We use 11 KPIs – five operational and six financial.

We reconcile financial measures to the closest IFRS measure on **pages 197 to 199**.

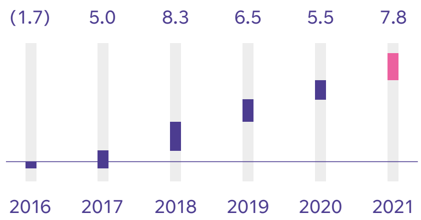
Operational At 31 March

R The annual bonus and long-term incentive plans that comprise our directors' remuneration are linked to certain KPIs. See the **Report on directors' remuneration** on pages 88 to 104.

a We gave our original outlook in July 2020 and updated it in September 2020 to raise the lower end of the adjusted[b] EBITDA range. We updated it again in February 2021 to raise the lower end of the normalised free cash flow outlook range. Our final outlook was adjusted[e] revenue down 5%–6%, adjusted[b] EBITDA £7.3bn–£7.5bn, capital expenditure £4.0bn–£4.3bn and normalised free cash flow[c] £1.3bn–£1.5bn.
b Adjusted EBITDA as stated is before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense, as explained on page 198.
c Normalised free cash flow as defined on page 199.
d Restated from 42% as presented in the Annual Report 2020 following review of our carbon emissions.
e Adjusted measures exclude specific items, as explained on page 197.

Group Net Promoter Score (NPS)

pp R



Definition

This tracks changes in our customers' perceptions of BT since we launched the measure in April 2016. It's a combined measure of 'promoters' minus 'detractors' across our business units. Group NPS measures Net Promoter Score in our retail business and Net Satisfaction in our wholesale business.

Link to strategy

2

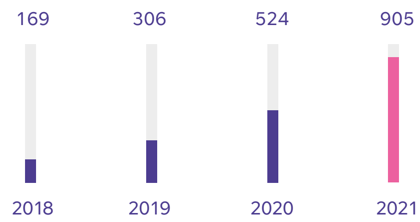
Performance

Group NPS increased by 7.8pp (2019/20: up 5.5pp). Our priority is to truly differentiate ourselves on customer experience and we'll keep exploring ways to do that.

You can read more about our approach to customer experience on **pages 26 to 29**.

Total Openreach FTTP connections

'000 R



Definition

This tracks how many premises are connected to Openreach's full fibre network.

Link to strategy

1

Performance

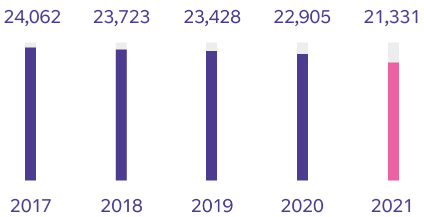
A total of 905k premises were connected to Openreach's FTTP (full fibre) network at 31 March 2021, compared to 524k at 31 March 2020. Openreach's full fibre rollout has now reached 4.6m footprint, achieving a record 2.0m premises passed in year.

You can read more about the full fibre rollout on **page 20**.

Financial Year ended 31 March

Reported revenue

£m



Definition

This is our revenue as reported in our income statement.

Link to strategy

1 2 3

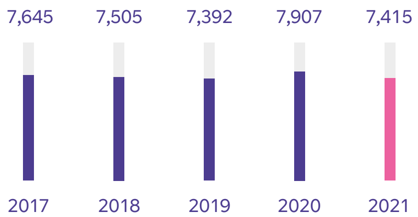
Performance

Reported revenue was £21,331m (2019/20: £22,905m). The decrease was mainly due to the impact of Covid-19 and ongoing legacy product declines and divestments, partly offset by higher Openreach bases in fibre and Ethernet.

You can read more about how our customer-facing units performed on **pages 54 to 55**.

Adjusted[b] EBITDA

£m R



Definition

This measures our earnings before interest, tax, depreciation and amortisation, specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expenses.

Link to strategy

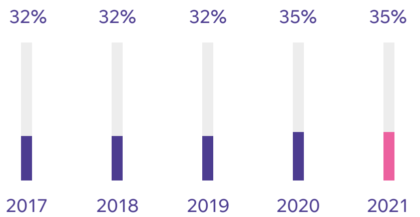
1 2 3

Performance

Adjusted[b] EBITDA was £7,415m (2019/20: £7,907m). The decrease was mainly driven by the fall in revenue, special frontline bonus, increased service costs and continued investment in copper-to-fibre migration and our full fibre base, partly offset by sports rights rebates and cost savings including our modernisation programme, tight cost control and Covid-19 mitigation actions.

Adjusted[b] EBITDA margin

%



Definition

This measures our margin, calculated using our adjusted[b] EBITDA and adjusted[e] revenue.

Link to strategy

1 2 3

Performance

Adjusted[b] EBITDA margin has remained flat at 35% over the past two financial years. The increase of 3pp over the preceding years is attributable to the adoption of IFRS 16 Leases on 1 April 2019, with lease payments no longer reflected in EBITDA after this date.

Link to strategy

Each KPI measures how we're doing against at least one of our strategic pillars.

You can read more about these, and our progress against them, from **page 19**.

1 Build the strongest foundations

2 Create standout customer experiences

3 Lead the way to a bright, sustainable future

Total 5G connections
'000 R

Definition

This measures the number of EE customers connected to our 5G products.

Link to strategy

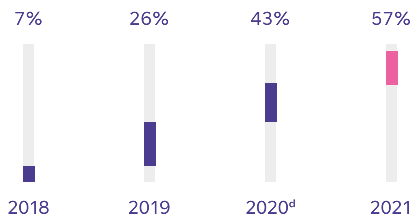
1

Performance

A total of 1,610k EE customers were connected to our 5G network at 31 March 2021 (2019/20: 64k). Coverage continues to grow and 5G is now in 160 locations. The new spectrum we secured in the latest Ofcom auction will allow us to continue to grow our position as the UK's number one 5G network next year and beyond.

You can read more on our 5G rollout on **page 20**.

Percentage reduction in carbon emissions intensity
% reduction R



Definition

This measures performance against our target to cut carbon emissions intensity by 87% by the end of March 2031 (compared to 2016/17 levels). It's measured by reference to tonnes of CO_2e (carbon dioxide equivalent) per £m value added (adjusted[b] EBITDA plus employee costs).

Link to strategy

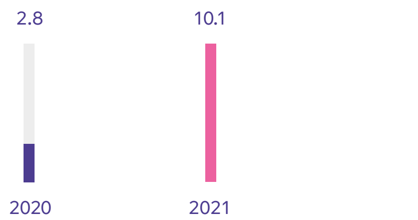
3

Performance

We've cut our carbon emissions intensity by 57% since 2016/17 (2019/20: 43%[d] reduction).

You can find more information on how we're tackling environmental challenges on **pages 32 to 33**.

Cumulative number of people reached to help improve their digital skills
m R



Definition

This measures the number of people we've reached with help to improve their digital skills through our Skills for Tomorrow programme.

Link to strategy

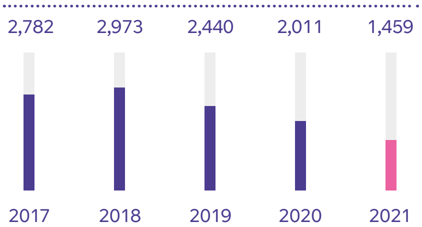
3

Performance

At 31 March 2021 we had helped a total of 10.1m people improve their digital skills (2019/20: 2.8m). We hit our initial ambition of reaching 10m people in the UK five years early, so we've extended our target and now want to reach 25m people by the end of March 2026.

You can read more about how we managed to help so many people build better digital lives on **page 31**.

Normalised free cash flow[c]
£m R



Definition

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

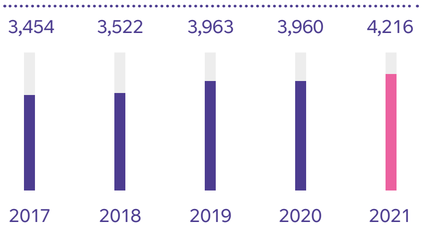
Link to strategy

1 2 3

Performance

We generated £1,459m of normalised free cash flow[c]. This was down 27% from last year and in line with our guidance range of £1.3bn to £1.5bn. The fall mainly reflects reduced EBITDA, higher cash capital expenditure and adverse working capital.

Reported capital expenditure
£m



Definition

This measures additions to property, plant and equipment and intangible assets during the year.

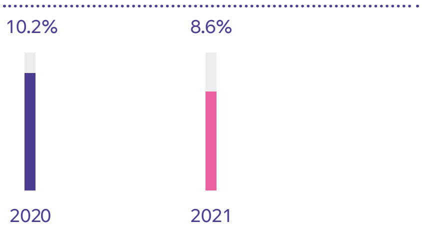
Link to strategy

1 2 3

Performance

Reported capital expenditure was £4,216m (2019/20: £3,960m). This was primarily driven by higher network and equipment spend, reflecting continued investment in full fibre deployment and the mobile network.

Return on Capital Employed (ROCE)
%



Definition

ROCE is adjusted earnings before interest and tax as a percentage of equity, debt and debt-like liabilities excluding balances associated with tax and management of financial risk. For a full definition and a reconciliation to the nearest IFRS measure see page 198.

Link to strategy

1 2 3

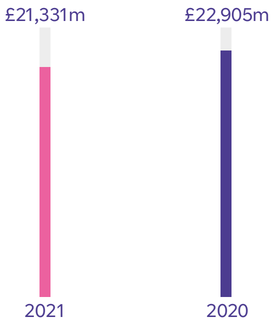
Performance

ROCE for the year was 8.6% (2019/20: 10.2%). The decline is attributable to the reduction in revenue and our investment in full fibre deployment, which will suppress ROCE in the short to medium term but will generate value-creating long-term returns.

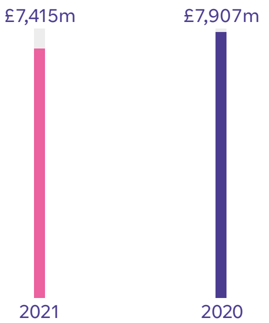
Group performance
Introduction from our Chief Financial Officer

Alternative performance measures
We assess the performance of the group using various alternative performance measures. As these are not defined under IFRS they are termed 'non-GAAP' or 'alternative performance' measures. We reconcile these to the nearest prepared measure in line with IFRS on pages 197 to 199. The alternative performance measures we use may not be directly comparable with similarly titled measures.

Revenue
£21,331m
(7)%

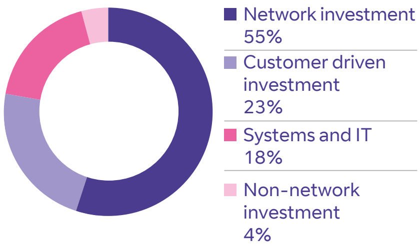


Adjusted[a] EBITDA
£7,415m
(6)%

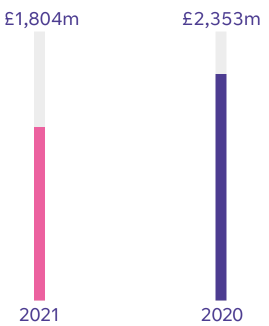


2020/21 Capital expenditure[c]

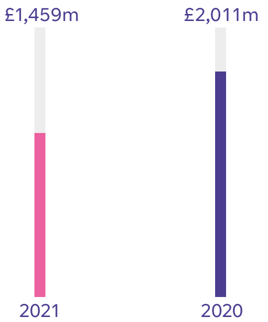
£4,216m



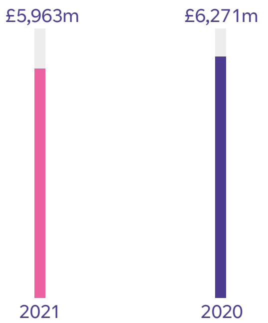
Profit before tax
£1,804m
(23)%



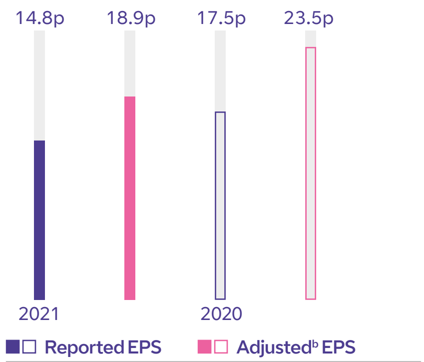
Normalised free cash flow[d]
£1,459m
(27)%



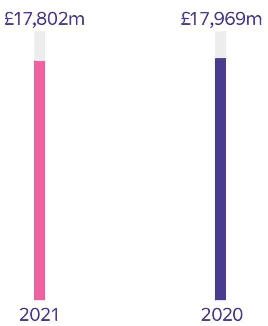
Operating cash flow
£5,963m
(5)%



Earnings per share



Net debt[f]
£17,802m



	Outlook[e]	Result	Performance in line with outlook
Change in adjusted[b] revenue	Down 5%–6%	Down 6%	✓
Adjusted[a] EBITDA	£7.3bn–£7.5bn	£7.4bn	✓
Capital expenditure[c]	£4.0bn–£4.3bn	£4.2bn	✓
Normalised free cash flow[d]	£1.3bn–£1.5bn	£1.5bn	✓

Performance

Overall our results for the year were in line with guidance.

Reported revenue was £21,331m, down 7% and adjusted[b] revenue was £21,370m, down 6%. This was due primarily to the impact of Covid-19 on Consumer and our enterprise units, ongoing legacy product declines and divestments, but was partially offset by higher equipment revenue and Openreach bases in fibre and Ethernet.

Reported profit before tax was £1,804m, down 23% primarily reflecting the decline in adjusted[a] EBITDA.

Adjusted[a] EBITDA of £7,415m was down 6%. This was primarily due to the fall in revenue, special frontline bonus, increased service costs and continued investment in copper-to-fibre migrations and our full fibre base, partly offset by sports rights rebates and cost savings including our modernisation programme, tight cost control and Covid-19 mitigation actions.

Outlook

We continue to expect adjusted[a] EBITDA of at least £7.9bn in 2022/23, with sustainable growth from this point forward.

For 2021/22 we expect adjusted[b] revenue to be broadly flat year on year, dependent on the speed of Covid-19 recovery. We expect to deliver adjusted[a] EBITDA between £7.5bn and £7.7bn, benefiting from a Covid-19 recovery, price indexation in Openreach and our retail businesses, and continued cost transformation, more than offsetting legacy declines and normal inflation in our cost base.

We intend to capitalise on Openreach's build capability, a positive spectrum auction outcome and the expected benefit from the Government's tax super-deduction which is likely to reduce our UK tax payable to zero over the next two years. We are therefore utilising this to accelerate immediately our FTTP investment. As such we expect capital expenditure[c] to increase to around £4.9bn in 2021/22. We expect normalised free cash flow[d] to be between £1.1bn–£1.3bn with the increase in capital expenditure[c] relative to 2020/21 only partially offset by the increase in adjusted[a] EBITDA and the impact of the Government's tax super-deduction.

Dividend

As communicated in May 2020, the Board decided that it was appropriate to suspend all dividends for 2020/21 reflecting the need to create capacity for BT's value-enhancing investment opportunities, including our strategic intent for an accelerated FTTP build and our extensive transformation and modernisation programme, coupled with the shorter-term impact of Covid-19. The Board expects to resume dividend payments in 2021/22 at 7.7 pence per share with 30% payable at the interim stage.

The Board expects to continue with a progressive dividend policy from this re-based level for future years, and to declare two dividends per year with the interim dividend being fixed at 30% of the prior year's full year dividend. The Board believes that suspending and re-basing the dividend and then maintaining a progressive dividend policy is the right thing to do for the long-term future of BT and that the headroom generated by this decision is prudent given the Covid-19 pandemic, while the investments will create significant additional value for shareholders.

Simon Lowth
Chief Financial Officer
12 May 2021

a Adjusted EBITDA is stated before specific items, share of post tax profits/losses of associates and joint ventures. and net non-interest related finance expense, as explained on page 198.
b Adjusted measures exclude specific items, as explained on page 197.
c Additions to property, plant and equipment and intangible assets in the period.
d Normalised free cash flow as defined on page 199.
e Outlook originally provided in July 2020 was updated in September 2020 to raise the lower end of the adjusted[a] EBITDA range from £7.2bn to £7.3bn, and again in February 2021 to raise the lower end of the normalised free cash flow range from £1.2bn to £1.3bn.
f Net debt as defined on page 197. Please refer to note 26 for reconciliation from the nearest IFRS measure.

Group performance continued

Summarised income statement

Year ended 31 March	2021 £m	2020 £m
Revenue	**21,331**	**22,905**
Operating costs[a]	(14,397)	(15,348)
Depreciation and amortisation	(4,347)	(4,274)
Operating profit	**2,587**	**3,283**
Net finance expense	(791)	(897)
Share of post tax profit/(loss) of associates and ventures	8	(33)
Profit before tax	**1,804**	**2,353**
Tax	(332)	(619)
Profit for the period	**1,472**	**1,734**

Revenue

Reported revenue was down 7%, primarily due to the impact of Covid-19 on Consumer including reduced BT Sport revenue and the closures of retail stores and pubs & clubs, as well as a reduction in business activity in our enterprise units. The decline in revenue was also driven by ongoing legacy product declines and divestments in our enterprise businesses, but was partly offset by higher equipment revenue in Consumer and higher rental bases of fibre-enabled products and Ethernet in Openreach.

You can find details of revenue by customer-facing unit on pages 54 and 55. Note 5 to the consolidated financial statements shows a full breakdown of revenue by all our major product and service categories.

Operating costs

Reported operating costs were down 4%, mainly driven by sports rights rebates and savings including our modernisation programme, tight cost control and Covid-19 mitigation actions. This was partly offset by increased service costs in Openreach, a special bonus for frontline colleagues, and continued investment in copper-to-fibre migrations and our full fibre base in Consumer.

In May 2020 we announced the next phase of our transformation focused on simplifying our product portfolio, simplifying and automating our customer journeys, moving to a modern, modular IT architecture, and migrating customers from our legacy networks to our modern FTTP and 5G networks.

We delivered gross annualised savings of £764m in the first year of the modernisation programme with an associated cost of £438m, against the three-year target of £1bn savings at a £900m cost and a five-year target of £2bn savings at a £1.3bn cost. The cost savings were delivered through simplification and automation of processes, operational productivity improvement programmes, enhanced procurement supported by digital tools, rigorous functional cost control, and Covid-19 mitigating actions.

You can read more about how we're modernising our business on **pages 22 and 23**.

Note 6 to the consolidated financial statements shows a detailed breakdown of our operating costs.

Adjusted[c] EBITDA

Adjusted[c] EBITDA of £7,415m was down 6%, mainly driven by the fall in revenue and increased costs as described above. You can find details of adjusted[c] EBITDA by customer-facing unit on pages 54 and 55.

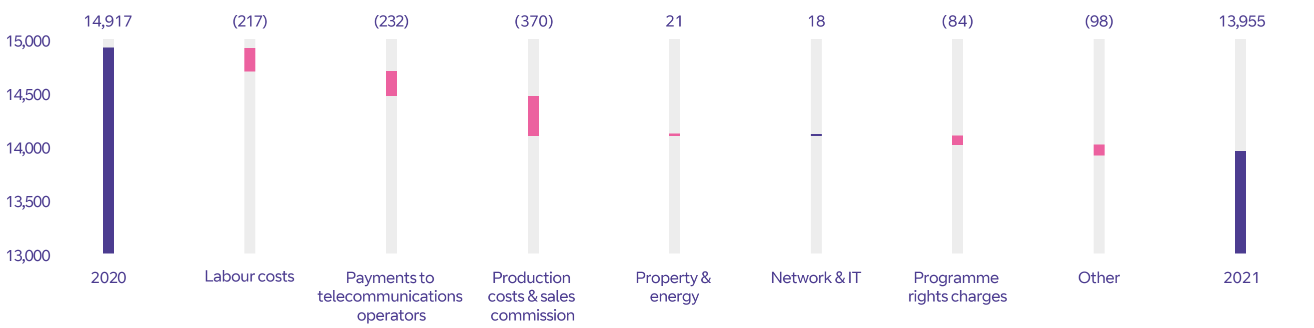
Profit before tax

Reported profit before tax of £1,804m was down 23%, primarily reflecting the decline in adjusted[c] EBITDA.

Specific items

As we explain on page 197, we separately identify and disclose those items that in management's judgement need to be disclosed by virtue of their size, nature or incidence. We call these specific items. Specific items are used to derive the adjusted results as presented in the consolidated income statement. Adjusted results are consistent with the way that financial performance is measured by management and assists in providing an additional analysis of the reported trading results of the group.

Adjusted[b] operating costs before depreciation, amortisation and specific items
Year ended 31 March
£m



Specific items resulted in a net charge after tax of £403m (2019/20: £590m). The components are regulatory charges of £35m (2019/20: release of £72m), restructuring costs of £421m (2019/20: £322m), the settlement with Dixons Carphone of £149m (2019/20: £nil), property rationalisation costs of £19m (2019/20: gains of £131m reflecting the gain on sale of BT Centre) and interest expense on pensions of £18m (2019/20: £145m); offset by sale of spectrum of £66m (2019/20: £nil), a net divestment-related items credit of £60m (2019/20: loss of £199m), Covid-19-related items credit of £17m (2019/20: charge of £95m) and a tax credit on specific items of £96m (2019/20: charge of £83m).

Note 9 to the consolidated financial statements shows the details of all revenues and costs that we have treated as specific items.

Taxation

Our effective tax rate was 18.4% (2019/20: 26.3%) on reported profit and 18.6% (2019/20: 18.7%) on profit before specific items. We paid income taxes globally of £288m (2019/20: £210m).

We paid UK corporation tax of £229m (2019/20: £147m). We benefited £181m from tax deductions on employees' pension schemes (2019/20: £434m).

Our tax expense recognised in the income statement before specific items was £428m (2019/20: £536m). We also recognised a £1,051m tax credit (2019/20: £892m tax charge) in the statement of comprehensive income, mainly relating to our pension scheme.

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

Note 10 to the consolidated financial statements shows further details of our tax expense, along with our key tax risks.

Earnings per share

Reported earnings per share was 14.8p, down 2.7p, while adjusted[a] earnings per share fell 4.6p to 18.9p.

Capital expenditure

We continue to invest in existing and new technologies to underpin our strategy of building the strongest foundations with the best converged network.

Capital expenditure was £4,216m (2019/20: £3,960m). Network investment was £2,318m, up 12%. This was driven by higher fixed network, mobile network and equipment spend, reflecting continued investment in FTTP deployment and the mobile network. Other capital expenditure components were largely flat with £984m spent on customer-driven investments, £765m on systems and IT, and £149m spent on non-network infrastructure.

Capital expenditure contracted but not yet spent was £1,365m at 31 March 2021 (2019/20: £1,234m).

Cash flow

Net cash inflow from operating activities was down 5% to £5,963m, mainly driven by reduced operating profit partly offset by a reduction in pension deficit payments. Normalised free cash flow[d] was down 27% to £1,459m due to reduced EBITDA, higher lease payments, cash capital expenditure and adverse working capital; offset by a cash receipt from the monetisation of a non-strategic revenue stream generated from our building infrastructure and the timing of tax payments.

The net cash cost of specific items adjusted from normalised free cash flow[d] was £390m (2019/20: £112m), primarily relating to restructuring payments of £428m (2019/20: £350m) and regulatory payments of £11m (2019/20: £39m). The prior year benefited from one-off cash inflows relating to £210m income on disposal of BT Centre and £87m annual licence fee refund from Ofcom. In addition, net cash proceeds from divestments were £164m (2019/20: £60m).

Normalised free cash flow[d]

Year ended 31 March	2021 £m	2020 £m
Cash generated from operations	6,251	6,481
Tax paid	(288)	(210)
Net cash inflows from operating activities	**5,963**	**6,271**
Net purchase of property, plant and equipment and intangible assets[e]	(4,818)	(3,889)
Free cash flow	**1,145**	**2,382**
Interest received	6	30
Interest paid	(770)	(736)
Add back pension deficit payments	955	1,274
Remove cash tax benefit of pension deficit payments	(181)	(434)
Dividends from associates	5	1
Add back net cash flow from specific items	390	112
Add back net sale of non-current asset investments	(11)	33
Add back prepayment in respect of spectrum licence auction	702	–
Remove payment of lease liabilities	(782)	(651)
Normalised free cash flow[d]	**1,459**	**2,011**

You can see a reconciliation to normalised free cash flow[d] from net cash inflow from operating activities (the most directly comparable IFRS measure) on page 199.

a Excluding depreciation and amortisation.
b Adjusted measures exclude specific items, as explained on page 197.
c Adjusted EBITDA is stated before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense, as explained on page 198.
d Normalised free cash flow as defined on page 199.
e Consists of additions of £4,197m, movements in capital accruals of £4m and prepayments of £702m in respect of spectrum which will be recognised as an asset in 2021/22, net of disposals of £85m.

Group performance continued

Summarised balance sheet

Year ended 31 March	2021 £m	2020 £m
Intangible assets	13,357	13,889
Property, plant and equipment	19,397	18,474
Right-of-use assets	4,863	5,391
Derivative financial instruments	1,235	2,489
Cash and cash equivalents	1,000	1,549
Investments	3,683	5,112
Trade and other receivables	3,571	3,185
Contract assets	1,859	1,721
Deferred tax assets	989	300
Other current and non-current assets	923	957
Total assets	**50,877**	**53,067**
Loans and other borrowings	16,685	19,334
Derivative financial instruments	1,283	1,012
Trade and other payables	6,662	6,548
Contract liabilities	1,092	1,151
Lease liabilities	6,152	6,560
Provisions	715	719
Retirement benefit obligations	5,096	1,140
Deferred tax liabilities	1,429	1,608
Other current and non-current liabilities	84	232
Total liabilities	**39,198**	**38,304**
Total equity	**11,679**	**14,763**

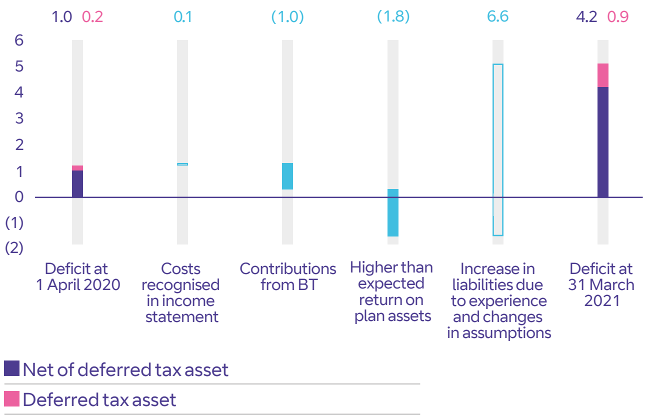
Pensions

Accounting position under IAS 19

The IAS 19 deficit has increased from £1.1bn at 31 March 2020 to £5.1bn at 31 March 2021. Net of deferred tax, the deficit has increased from £1.0bn to £4.2bn.

The increase in the gross deficit of £4.0bn since 31 March 2020 mainly reflects a fall in the real discount rate, partly offset by £1bn of deficit contributions paid over the period, lower assumed future life expectancies and positive asset returns.

The movements in the deficit for the group's defined benefit plans are as follows:



BT Pension Scheme (BTPS) funding valuation and future funding obligations

BT and the Trustee of the BTPS have reached agreement on the 2020 triennial funding valuation and recovery plan. The funding deficit at 30 June 2020 is £7.98bn, compared to a deficit of £11.30bn at 30 June 2017. The key drivers for the reduction are £4.5bn of deficit contributions and lower assumed future life expectancies, partly offset by an initial allowance for the impact of the reform of RPI. Due to hedging implemented by the Scheme in recent years, the fall in real interest rates over the period had limited impact on the deficit.

The deficit will be met as follows:

- £2bn of deficit met through an asset backed funding arrangement over 13 years with annual cash payments of £180m pa, secured against the EE business
- The balance being met over the existing 10 year period with annual cash contributions reducing from £900m initially to £600m from 1 July 2024.

A new "stabiliser" mechanism has been agreed that reduces the risk of future trapped surplus and provides more certainty that the BTPS will achieve its path to full funding by clarifying how future increased deficits would be funded.

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

Net debt and net financial debt[a]

Net financial debt[a] (which excludes lease liabilities) at 31 March 2021 was £11.7bn, £0.3bn higher than at 31 March 2020, with net capital expenditure, net interest payments and payment of lease liabilities offsetting net cash inflow from operating activities and net proceeds from disposal of subsidiaries.

Net debt[a] (which includes lease liabilities) was £17.8bn at 31 March 2021, £0.2bn lower than at 31 March 2020 (£18.0bn). The difference to the movement in net financial debt primarily reflects the lease payments.

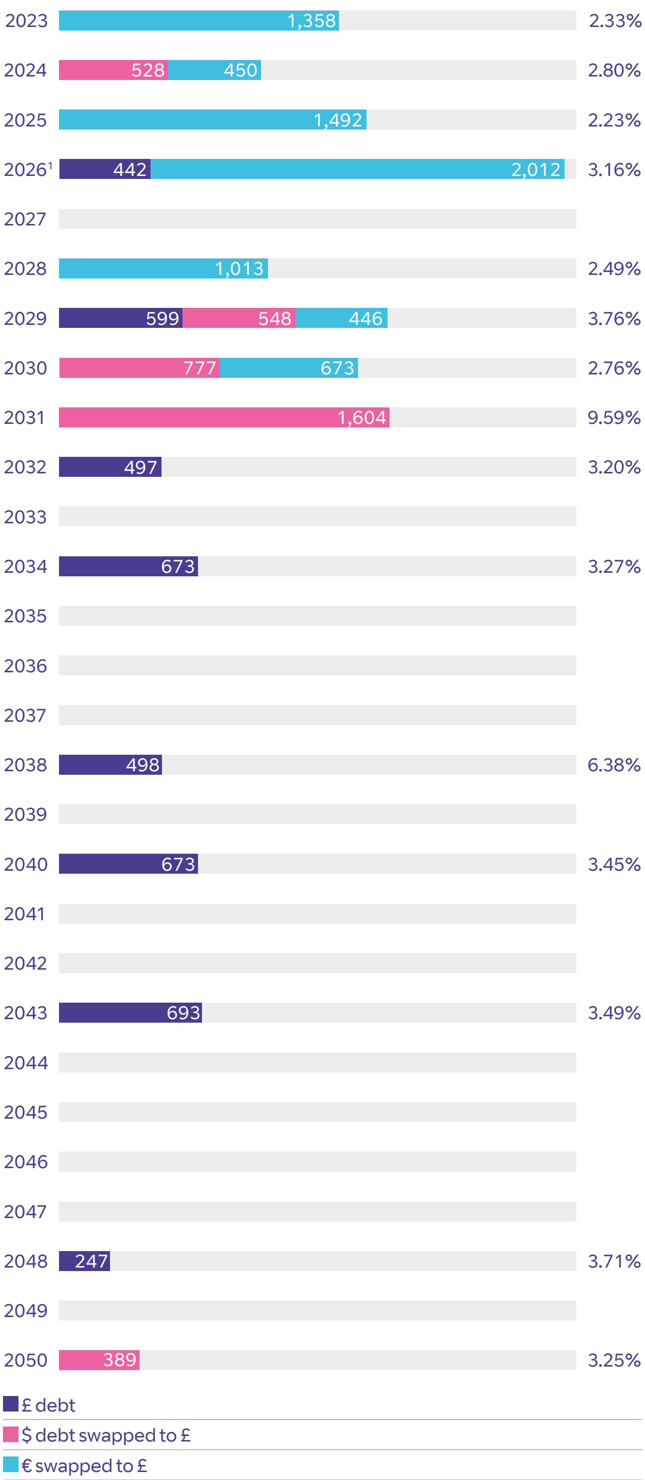
At 31 March 2021 the group held cash and current investment balances of £4.7bn. The current portion of loans and other borrowings of £0.9bn includes no term debt repayable during 2021/22. Our £2.1bn facility, which matures in March 2026, remains undrawn at 31 March 2021.

Gross debt translated at swap rates and excluding accrued interest and fair value adjustments was £22.5bn at 31 March 2021. This comprises term debt of £15.4bn, lease liabilities of £6.2bn and other loans of £0.9bn.

Debt maturity

The graph below shows the maturity profile for our term debt. Currency denominated balances are translated to sterling at swapped rates where hedged.

£m



Note 26 to the consolidated financial statements gives more information on our debt arrangements.

1 Reflects exercise of call option attached to 1.874% €500m bond due in 2080.

Contractual obligations and commitments

The table below shows our principal undiscounted contractual financial obligations and commitments at 31 March 2021.

As at 31 March 2021	**Total £m**	Less than 1 year £m	Between 1 and 3 years £m	Between 3 and 5 years £m	More than 5 years £m
Loans and other borrowings[b]	**16,301**	692	2,336	3,944	9,329
Pension deficit obligations	**8,800**	1,121	1,776	1,562	4,341
Lease liabilities	**6,970**	724	1,553	1,302	3,391
Programme rights commitments	**1,691**	727	935	29	–
Capital commitments	**1,370**	1,154	145	71	–
Other commitments	**263**	263	–	–	–
Total	**35,395**	**4,681**	**6,745**	**6,908**	**17,061**

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

Notes 15, 20, 26 and 31 to the consolidated financial statements give further information on these items.

Share buyback

We spent £14m (2019/20: £86m) on our share buyback programme. We received proceeds of £1m (2019/20: £2m) from people exercising their share options.

a Net debt and net financial debt as defined on page 197. Please refer to note 26 for reconciliations from the nearest IFRS measure.
b Principal repayments at hedged rates.

Group performance continued
Our customer-facing units

Consumer

Year ended 31 March	2021 £m	2020 £m	Change £m	Change %
Adjusted[a] revenue	9,885	10,388	(503)	(5)
Adjusted[a] operating costs	7,757	7,962	(205)	(3)
Adjusted[b] EBITDA	**2,128**	**2,426**	**(298)**	**(12)**
Depreciation & amortisation	1,281	1,278	3	–
Adjusted[a] operating profit	**847**	**1,148**	**(301)**	**(26)**
Capital expenditure	1,082	948	134	14
Normalised free cash flow[c]	714	1,065	(351)	(33)

Adjusted[a] revenue

£9,885m
(5)%

Adjusted[a] operating profit

£847m
(26)%

Revenue[a] declined due to the continued impact of Covid-19 which resulted in the closure of retail stores and pubs & clubs (impacting BT Sport revenue) for large parts of the financial year. There has been pressure on mobile revenue through reduced roaming and out of bundle usage, reduced prepaid activity and increased SIM-only mix diluting postpaid ARPC; which were partially offset by higher equipment revenue driven by increased direct volumes and a higher mix of premium handsets. Fixed revenue declined due to lower out of contract price rises and copper price reductions to address back book pricing, combined with a continued decline of our voice only customer base and call volumes.

EBITDA[b] declined due to lower revenue, continued customer investment in both copper-to-fibre migrations and the growth of our full fibre base, along with the bonus provided to our frontline staff. This has been partially offset by sports rights rebates, improved mobile margin with lower indirect commissions, increased equipment margin and tight cost management throughout the year.

Depreciation and amortisation was flat year on year. Capital expenditure was up due to higher network and equipment investment.

Normalised free cash flow[c] declined due to lower EBITDA[b] and higher capital expenditure.

Broadband churn has improved year on year by 0.1ppts to 1.1% due to significant investment in customer experience. Postpaid churn has improved year on year by 0.2ppts to 1.0%.

Our full fibre and 5G bases, award-winning mobile network, low churn, growing customer base on index-linked contracts, strong NPS and continued converged growth with Halo 3+, provide us with strong foundations for the future. This is further strengthened by the Government's roadmap to lift Covid-19 restrictions, the re-opening of our retail stores, the planned full re-opening of pubs & clubs and the possibility of a return to foreign travel.

Enterprise

Year ended 31 March	2021 £m	2020[d] £m	Change £m	Change %
Adjusted[a] revenue	5,449	5,952	(503)	(8)
Adjusted[a] operating costs	3,745	4,017	(272)	(7)
Adjusted[b] EBITDA	**1,704**	**1,935**	**(231)**	**(12)**
Depreciation & amortisation	740	712	28	4
Adjusted[a] operating profit	**964**	**1,223**	**(259)**	**(21)**
Capital expenditure	492	496	(4)	(1)
Normalised free cash flow[c]	1,352	1,363	(11)	(1)

Adjusted[a] revenue

£5,449m
(8)%

Adjusted[a] operating profit

£964m
(21)%

Revenue[a] declined due to continued declines in legacy products, in particular traditional fixed voice volumes and usage, the ongoing impact of Covid-19 and divestments. Fixed voice revenue declined by 13% with a decline in traditional voice lines partly offset by continued growth in VoIP seats.

Mobile revenue declined primarily due to lower roaming and out of bundle usage in retail mobile, offsetting a 4% increase in our retail customer base. The fall in retail revenue was partly offset by an increase in wholesale mobile revenue reflecting a higher average MVNO base. Excluding divestments in the prior year, revenue was down 7%.

Operating costs[a] declined by 7%, primarily reflecting the decline in revenue and our cost transformation programmes, partially offset by investment to support our growth areas. The decline in EBITDA[b] was mainly a result of the declines in legacy products and Covid-19, partly offset by cost savings from our transformation programme. Excluding divestments in the prior year, EBITDA[b] was down 11%.

Capital expenditure decreased by 1%. Normalised free cash flow[c] decreased 1%, with the fall in EBITDA[b] partially offset by the benefit generated from the monetisation of a non-strategic revenue stream generated from our buildings infrastructure.

Retail order intake fell 27% to £2.6bn and wholesale order intake fell 27% to £0.9bn for the year. The declines in both retail and wholesale orders are largely due to major contract extensions in the prior year.

Despite extension of financial support for businesses in the latest Government budget, we expect Covid-19 to continue to have an impact going into 2021/22, particularly on our direct and indirect SME customers.

Global

Year ended 31 March	2021 £m	2020 £m	Change £m	Change %
Adjusted[a] revenue	**3,731**	4,361	(630)	(14)
Adjusted[a] operating costs	**3,135**	3,727	(592)	(16)
Adjusted[b] EBITDA	**596**	**634**	**(38)**	**(6)**
Depreciation & amortisation	**405**	479	(74)	(15)
Adjusted[a] operating profit	**191**	**155**	**36**	**23**
Capital expenditure	**188**	223	(35)	(16)
Normalised free cash flow[c]	**187**	255	(68)	(27)

Adjusted[a] revenue

£3,731m
(14)%

Adjusted[a] operating profit

£191m
23%

Revenue[a] declined by 14% due to the negative impact of Covid-19, divestments of domestic businesses in Spain, Latin America and France, mature and legacy portfolio declines and a £28m negative impact from foreign exchange movements. Revenue excluding divestments and foreign exchange declined by 9%.

EBITDA[b] declined by £38m reflecting the impact of divestments and a £11m negative impact from foreign exchange movements. EBITDA[b], excluding divestments, foreign exchange and one-offs increased by 3%. The negative impact of Covid-19 on revenue was more than offset by lower operating costs[a] reflecting ongoing transformation, rigorous cost control and Covid-19 mitigation actions.

Depreciation and amortisation declined by 15% due to the impact of divestments and reductions in capital investment over the last few years.

Capital expenditure declined by 16% due to lower project spend, Covid-19 related deferrals of customer spend and the impact of divestments. Normalised free cash flow[c] declined by £68m reflecting adverse working capital and lower EBITDA[b], partly offset by lower capital expenditure.

Order intake for the year was £3.7bn, down 15% year on year as customers continued with a more cautious approach, with ongoing delays to purchasing processes and lower than expected levels of demand and non-contracted spend. In addition, order intake in the prior year benefited from a number of large renewals and the current year was reduced by the divestments.

The current challenging market conditions resulting from Covid-19 are expected to continue into the next financial year impacting both order intake and trading performance.

Openreach

Year ended 31 March	2021 £m	2020 £m	Change £m	Change %
Adjusted[a] revenue	**5,244**	5,112	132	3
Adjusted[a] operating costs	**2,307**	2,254	53	2
Adjusted[b] EBITDA	**2,937**	**2,858**	**79**	**3**
Depreciation & amortisation	**1,707**	1,712	(5)	–
Adjusted[a] operating profit	**1,230**	**1,146**	**84**	**7**
Capital expenditure	**2,249**	2,108	141	7
Normalised free cash flow[c]	**486**	670	(184)	(27)

Adjusted[a] revenue

£5,244m
3%

Adjusted[a] operating profit

£1,230m
7%

Revenue[a] growth was primarily due to higher rental bases in fibre-enabled[e] products, up 15%, and Ethernet, up 7% at year end. This was partially offset by declines in legacy copper products.

EBITDA[b] grew 3% driven by revenue growth. Operating costs[a] increased with higher service costs as we continue to deliver against our customers' increasing service expectations, increased full fibre provisions and pay inflation and a special frontline bonus partially offset by ongoing efficiency programmes.

Capital expenditure was up 7% due to investments in the network and connecting our customers, predominantly fibre-enabled infrastructure, partly offset by efficiency savings and lower non-fibre spend.

Normalised free cash flow[c] declined by 27% due to flow through of EBITDA[b] and capital expenditure and timing of working capital and lease payables.

The UK lockdowns have had some impact on our trading. The first few months of the year were characterised by lower provision and upgrade activity, partly offset by lower churn. The impact in the last few months was limited to lower full fibre and Gfast sales as we temporarily paused non-essential work inside customer premises. We have now recommenced entering customer premises for most services and are expecting to clear backlogs by summer 2021.

a Adjusted measures exclude specific items, as explained on page 197.
b Adjusted EBITDA is stated before specific items, share of post tax profits/losses of associates and joint ventures and net non-interest related finance expense, as explained on page 198.
c Normalised free cash flow as defined on page 199.
d The prior year comparatives for Enterprise have been restated for the transfer of Supply Chain and Pelipod to the central procurement team on 1 April 2020. For more information please see note 1 to the financial statements on page 123.
e FTTP, FTTC and Gfast, including Single Order Migration.

A letter from the Chair of Openreach

To say this has been a challenging year would be an understatement. The pandemic has dominated the last 12 months. We've all learned more than we ever expected about viruses, vaccines, social distancing and how best to wash our hands.

Unsurprisingly Covid-19 affected our working lives too, and we certainly saw that here at Openreach.

Keeping the UK connected

In March 2020, millions of us switched to working and schooling from home and our engineers were given key worker status, meaning they could keep building and maintaining our network.

From connecting the health service, to schools and critical infrastructure, we also maintained links between loved ones and made sure people could continue to work from home and keep the country going.

UK broadband use more than doubled from 22,000 petabytes in 2019 to 50,000 petabytes in 2020 as people relied on digital connections more than ever.

Our priority was keeping our colleagues and customers safe and we swiftly re-engineered processes so we could work safely and keep the country connected.

And of course, we can't ignore the impact of Brexit. In any other year, such a seismic shift would've dominated our thoughts and actions, but we didn't let it derail progress. And now our focus shifts to the future.

Building back better

Despite everything, we sped up our full fibre build this year, reaching one million homes and businesses in just over six months. This was – and will continue to be – instrumental in maintaining a strong and sustainable business for our shareholder BT, Openreach colleagues and customers. Even in a year like no other.

We're now making our fastest, most reliable broadband technology available to another home or business every 14 seconds and recently reached 4.6m premises.

Our build includes millions of homes in the country's toughest-to-reach areas as we do everything we can to connect rural communities.

We're in a strong position to build back better, supporting the wider economy as well as our shareholder, customers and the UK, to help the nation recover.

Supercharging the recovery

'Building back better' sounds good. But as we take stock of what the UK needs to bounce back strongly, we have to deliver substance.

At Openreach, we know that full fibre broadband has a huge role to play in the recovery, and the Centre for Economics and Business Research (Cebr) has reinforced that.

In its recent updated study, Cebr highlights how better broadband can be a massive platform for economic growth, social cohesion and positive environmental change. It could deliver a £59bn boost to UK productivity by 2025 and help an extra 400,000 people live and work where they choose, stimulating regional and rural economic growth.

The Government wants at least 85% of the UK to have gigabit capable broadband in the same timeframe. But getting as close to 100% as possible has to be the aim – and we're passionate about doing our bit.

Building back greener

Based on Cebr's research, nationwide full fibre broadband could save 300m commuting trips each year, with three billion fewer kilometres travelled by car and 360,000 fewer tonnes of carbon emissions. That's a terrific dividend. But our focus on sustainability doesn't end with the network.

With more than 28,000 vehicles, Openreach operates the UK's second largest commercial van fleet. Our engineers travel more than 220m miles a year – producing more than 95,000 tonnes of CO_2.

We have to tackle this. So we're aiming to switch a third of the fleet to electric or zero emissions by the middle of this decade and want to be all-electric or zero emissions by 2030.

Continued progress on service

Over the last four years we've been recognised for making huge strides in delivering a better customer experience, but 2020 was an unusual year. Despite completing record volumes of provisions and fixes, we couldn't maintain every Minimum Service Level set for us by Ofcom.

However, the regulator has recognised the impact of the pandemic and it won't be taking enforcement action as long as we keep doing the right thing for our customers.

Looking forward

We're a £5bn revenue business, employing more than 35,000 colleagues across the UK, and I'm proud to say this year we bucked the economic trend by creating 5,300 new engineering jobs across Openreach and our supply chain.

I am encouraged by Ofcom's final statement in its WFTMR, which establishes the regulatory framework for the next five years. The regulator's emphasis on investment and its recognition of the need to create a regulatory environment encouraging the renewal of our country's access network across all four nations is very welcome.

As we work to speed up adoption, we know that educating people about the benefits of full fibre will be key to the success of this new network. We're working closely with communications providers to raise awareness, stimulate demand and make sure upgrades are smooth and affordable.

We're pressing on with building full fibre at pace. We're increasing and accelerating our build from 20m to 25m homes and businesses by December 2026. We believe we can ramp our build up to 4m premises a year – going harder and faster than previously thought possible, whilst doing everything we can to build fairly across the whole of the UK. It's the right thing for our business, our shareholder, our colleagues, and our customers.

Mike McTighe
Chair, Openreach
12 May 2021

How we manage risk

Our risk management framework helps us tackle risks and uncertainties consistently to stop them derailing our strategy. It also lets us think smarter about risk while running our business with operational discipline.

Our risk management framework

This year, we operated an enhanced risk management framework to support us on our journey to be the world's most trusted connector of people, devices and machines.

The framework gives us extra confidence to tackle risks and uncertainties that crop up – as we execute our strategy, transforming and modernising the business to deliver on our ambition.

How the framework helps us achieve our ambition

The framework strengthens our foundations and helps our leaders make smarter choices. Both things are vital to help building trust among colleagues, customers and other stakeholders.

Being smart with risk

The framework identifies key attributes of a 'risk-smart' culture: individual mindset, attitude to risk and the right behaviours.

These attributes, in combination with having a robust risk process, help us make the right risk decisions, knowing which risks to take and having the courage to take them.

Operational discipline

The framework helps us set simple and clear requirements through our policy landscape, key controls and assurance activities which result in smoother operations through an enhanced control environment.

The diagram below illustrates how our framework supports us in delivering our strategy and achieving our ambition by putting these elements into action.

How we identify and assess risks

Group risk categories

We define our risk landscape through areas of enduring risk called group risk categories. They are not intended to contain the whole risk universe, just the parts we think are most relevant to BT.

For each category, we define the level of risk we're willing to take (our risk appetite) through a number of metrics; and we describe the rules we've set to manage it (policies, standards and controls).

We apply our framework to constantly reassess, monitor, manage and report on the main risks to our strategy.

Point risks

Some risks aren't always adequately covered by the set of rules in place; or by the ways we normally set our risk appetite.

They might need extra focus at the moment because they're unusual, changing rapidly, or currently have a potentially significant impact.

We call these point risks and we put extra management focus on them.

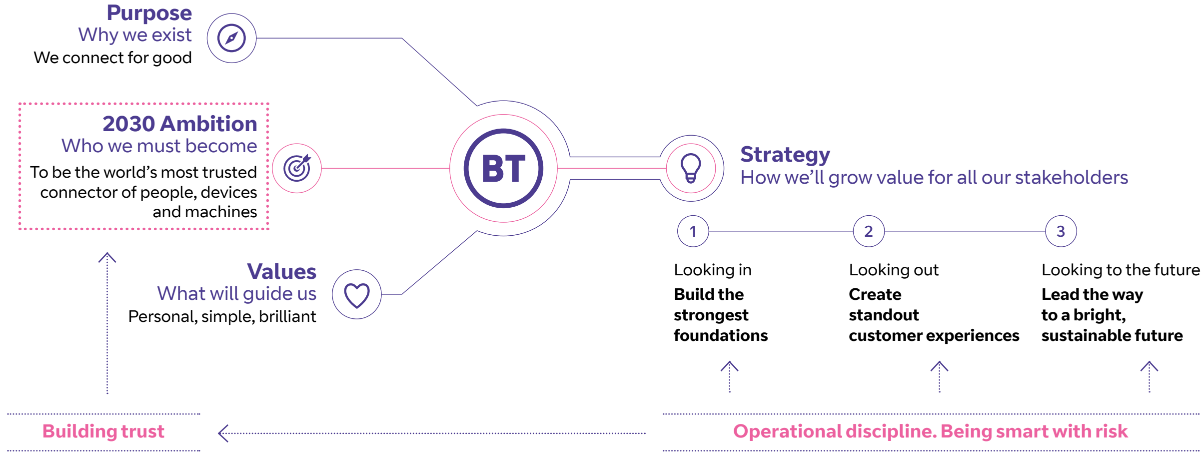
Emerging risks

Other risks might be more like uncertainties – not yet fully formed into specific risks. That makes them particularly difficult to quantify or make specific plans for.

These are emerging risks. We use ongoing monitoring to spot the triggers that could crystallise these uncertainties and turn them into specific risks.

The diagram on the next page illustrates how the different components of our framework come together.

Risk and discipline underpin the key parts of our strategy allowing us to achieve our ambition to become the world's most trusted connector of people, devices and machines



How we manage risk continued

How we manage risks

Group risk categories are assigned a member of the *Executive Committee* as owner, which helps us make sure all risks across each category get considered consistently across the group.

Each owner is ultimately accountable for setting our risk appetite for each particular risk category. They set out how we measure our exposure to that risk, how we manage it (including setting the right policies and controls) and ensure that we take the actions necessary to achieve and maintain our target risk appetite and level of control. Point and emerging risks relating to each category are continuously reviewed and managed.

Each of our business units also reviews, on a periodic basis, its exposure in all these categories and the point and emerging risks that might affect its performance.

Our governance structures ensure that different oversight bodies and leadership teams get the right level of information on our risk exposures and how we're managing them. This promotes robust discussion and prioritisation, the right monitoring, and better decision-making.

How risk links to strategy

On the previous page we show how risk and discipline underpin our strategy, which includes building the strongest foundations, creating standout customer experiences and leading the way to a bright sustainable future.

To achieve each of the "pillars", we need to manage risks, operate with discipline and make smart choices in all of our group risk categories. Some categories contribute more strongly to particular pillars than others.

For example, we need to manage cyber security and service interruption risks in building the strongest foundations; we need to manage risks related to customer service and major contracts in delivering standout customer experiences; and we need to manage risks associated with strategy, technology and competition to lead the way to a bright sustainable future.

We cover our full risk landscape in detail over the next pages, including how each group risk category could affect our strategy and/or business model.

You can find out more about our strategy on **page 19**, and our business model on **pages 12 to 13**.

Our framework explained

We classify our group risk categories in four ways according to the type of risk they represent: strategic, financial, compliance and operational.

We also identify and manage point and emerging risks within each of these categories and across categories.

Some risks or risk themes are high-profile topics that cut across different categories and warrant central coordination and oversight.

Strategic
- Strategy, technology and competition
- Stakeholder management

Financial
- Financing
- Financial control

Compliance
- Legal compliance
- Data regulation
- Regulation

Operational
- Service interruption
- Cyber security
- Transformation delivery
- People
- Health, safety and wellbeing
- Major contracts
- Customer service
- Third party management

Units

Consumer | Enterprise | Global | Openreach | Digital | Networks | Programmes | Other

Point & emerging risks

Covid-19 < Risk themes > Brexit

Two of our risk themes are currently widely represented across the group risk categories:

Covid-19

The pandemic is having, and will continue to have, a big impact across our entire risk landscape. Responding to the effects of Covid-19 has become part of our day-to-day operations and that response is overseen by an *Executive Committee* level steering group. However, there's still huge uncertainty in terms of the timing, extent and length of national or regional lockdowns and their impact on our operations, colleagues and customers.

Covid-19 has reinforced how critical our networks are. They supported large-scale switches to home working. And they've allowed us to give extra communications support to UK central government and the devolved administrations in their pandemic response activities.

Brexit

The UK and EU agreed a trade deal which came into force on 1 January 2021 and established a new trading relationship. We've been planning for Brexit for four years and the outcome of the trade deal negotiations hasn't had any operational impact on BT services. Our movement of goods, people, data and services are operating normally.

We're monitoring developments on both sides to measure any potential impacts.

Our principal risks and uncertainties

Strategic

Strategy, technology and competition

Owner: Chief financial officer

What this category covers

We could fail to properly respond to an uncertain economic outlook, intensifying competition, rapid technology developments, or fail to develop products and services that match changing market dynamics or customer expectations.

How it could affect our strategy and/or business model

- Increased competition might challenge our market share, revenue or profit, or could make it harder for us to grow the value of our business.
- New technology developments could make it harder for us to monetise our network investment and could potentially force us to invest more to meet the needs of customers.
- Major economic uncertainty could have a big effect on our customers – weakening demand, making them less willing to pay for premium services and increasing the risk of bad debts.

How we manage it

- Investing in becoming a network leader with the best converged network.
- Transforming ourselves to be fitter for the future through upgrading older services and technologies.
- Investing in differentiated solutions that give us opportunities to grow and deliver standout customer experiences.
- Monitoring technology developments and competitor activity.
- Working with regulators and key stakeholders.

Point risks that could affect this category

- Stronger competition in the converged market.
- Increasing competitive intensity.
- A shrinking global economy.

Emerging risks that could affect this category

- New disruptive technologies which substitute our products.
- Over-the-top players joining the connectivity market.

Stakeholder management

Owner: Corporate affairs director

What this category covers

We might fail to properly manage our stakeholders, which may affect our significant risks, for instance those around buying, using, selling or developing new or emerging technologies responsibly.

How it could affect our strategy and/or business model

- Not effectively managing our stakeholders' expectations, or failing to anticipate the potential effects of certain risks on the communities we serve, might damage their trust in us. That could affect our performance, shareholder value, licence to operate and might also limit new growth opportunities.
- Our future strategy and growth plans could be undermined.
- There might be legal liabilities for the company or individual colleagues.

How we manage it

- Tracking trust and reputation across our main stakeholder groups to inform our plans.
- Proactively engaging with key stakeholders to build stronger relationships and support a better understanding of risks.
- Exploring more positive outcomes for BT in a fair and transparent way.
- Operating a responsible and sustainable business, maintaining our top quartile position on environmental, social and governance criteria.

Point risks that could affect this category

- Full fibre build commitments and rural connectivity.
- Misinformation on 5G health concerns.
- Developments from the UK withdrawing from the EU.

Emerging risks that could affect this category

- Evolving trade tensions between the US and China.
- Climate change policy agenda and perceptions of our sector's role in carbon emissions.
- Growing focus on the digital divide and its implications.
- Potential for misuse of our products or technologies, in the context of our commitments to human rights.

Our principal risks and uncertainties continued

Financial

Financing

Owner: Chief financial officer

What this category covers

We could find ourselves not able to fund our business or pension schemes, or to refinance debt.

How it could affect our strategy and/or business model

- Not generating enough cash, being unable to access capital markets, or a big increase in our pension scheme obligations could stop us from being able to fund our business cash flows or meet our payment commitments.

How we manage it

- Regularly reviewing actual and forecast cash flow performance.
- Performing annual viability assessments and conducting scenario analysis.
- Issuing hybrid debt.
- Having a pension investment approach that lowers our risk over time, making contributions less volatile.
- Analysing our pension schemes' funding position and investment performance regularly, and negotiating funding valuations.
- Responding to any relevant pensions consultations.

Point risks that could affect this category

- Lack of access to capital and liquidity because of the economic downturn.
- Our credit rating being downgraded.
- An increase in our pension deficit.

Emerging risks that could affect this category

- Pension regulator review of funding regulations, risking bigger pension liabilities or giving us less time to make deficit payments.
- Future debt capital markets might not suit all our debt needs.

Financial control

Owner: Chief financial officer

What this category covers

One or more of our financial controls could fail to prevent fraud (including misappropriation of assets) or inaccurate reporting, resulting in financial losses or causing us to misrepresent our financial position.

How it could affect our strategy and/or business model

- Failings in how we design or operate our financial controls might lead to financial loss, misstatement and/or wrong business decisions. On top of that, it could give rise to fraud, dissatisfied stakeholders, breaches and associated penalties, legal action and damage to our reputation.
- Not modernising our business and financial processes by simplifying and automating our controls could make it harder for us to be agile, proactive and customer-centric.

How we manage it

- Maintaining an internal controls framework with clear accountability across the three lines of defence.
- Performing quarterly control attestations.
- Conducting annual testing covering all key controls, including relevant IT general controls.
- Continuing to enhance processes, systems and controls, for instance by investing in enterprise-wide SAP to deliver improved and automated accounting and controls.

Point risks that could affect this category

- Failing to simplify and modernise our finance processes.
- Impact of complex legacy systems on our internal controls.
- Ability to maintain sound internal controls following our deregistration from the US Securities and Exchange Commission.

Emerging risks that could affect this category

- Changes to controls framework requirements as a result of changes to regulation and legislation.

Compliance

Legal compliance

Owner: General counsel[a]

What this category covers

We could fail to comply with legal requirements that apply to our business, including law relating to anti-bribery and corruption, competition, trade sanctions and corporate governance obligations.

How it could affect our strategy and/or business model

- Not following laws that apply to us might lead to fines and penalties. That could affect our operations and shareholder value, as well as damaging the public's trust in us.
- Serious breaches could lead to prosecution, litigation or to the regulator stepping in. And that might lead to fines or affect our ability to operate, especially if the breaches were deemed criminal.

How we manage it

- Assessing risks regularly when providing legal advice on strategic projects and commercial operations.
- Scanning the horizon to prepare for legislative changes and developing policies to address them.
- Ensuring compliance with laws and regulations when signing off new business.
- Training and communication so our colleagues are aware of legal risks, controls needed and expected standards of conduct as set out in our Ethics Code.
- Running discipline and reward incentives to encourage the right behaviour in managing risks.
- Carrying out monitoring and assurance, both internally and externally, on some of our high-risk suppliers.
- Fostering a culture where our colleagues can speak up, so we can identify problems and stop them happening again.

Point risks that could affect this category

- Post-Brexit changes to UK laws and regulations.

Emerging risks that could affect this category

- Increased reliance on third parties following the divestment of assets.
- The geopolitical risks of further sanctions in high-risk territories.

Data regulation

Owner: Chief digital and innovation officer

What this category covers

We could fail to follow data regulations, or not anticipate and adequately prepare for future ones.

How it could affect our strategy and/or business model

- Failing to comply with global data protection laws or regulations that apply to us could damage our reputation, affect our stakeholders' trust in us and harm our colleagues, customers and suppliers.
- It also means that we could face potential litigation and big fines and penalties.

How we manage it

- Continuously enhancing our data governance programme to tackle existing and future data regulatory risks.
- Reviewing the use of personal data across the business to make sure our data protection policies are followed.
- Running data protection and data handling training, and providing tools to help our colleagues make better, more risk-aware day-to-day decisions.
- Monitoring the post-Brexit regulatory landscape and making contingency plans to keep data flowing where it's needed.

Point risks that could affect this category

- The UK losing data adequacy status from the EU.
- Preventing data loss in remote working environments.
- Complying with data protection laws and regulations, while seeking innovative uses for data.

Emerging risks that could affect this category

- Changes to data protection laws and regulations that apply to us wherever we operate.
- Increased regulator focus on governance and ethics around data propositions and processes.

a Owner will change to general counsel and director of regulatory affairs from 1 June 2021, see page 8.

Our principal risks and uncertainties continued

Compliance (continued)

Regulation

Owner: Regulatory affairs director[a]

What this category covers

We could face an adverse regulatory environment to execute our strategy. Or we could fail to stick to the guidance and regulation set by our telecommunications and financial services regulators (Ofcom and the FCA, respectively).

How it could affect our strategy and/or business model

- An overly strict or inflexible regulatory environment might make it harder for us to innovate and develop new products and services.
- Unsupportive regulation could stop us investing at pace and scale in our full fibre rollout, 5G, converged connectivity and financial services.
- An unclear or unpredictable regulatory environment could make it harder to deliver what customers and society expected from us while growing our value.
- Not following regulations applying to us could lead to regulator action. That might damage our reputation or public trust, or make it harder to have a say in regulatory and governmental policy development.

How we manage it

- Making sure the Commitments are always front of mind for all colleagues, including training those in high-risk roles.
- Proactively engaging with our regulators at different levels and on different policy topics.
- Creating brilliant customer experiences, for example when moving customers on to our new networks.
- Maintaining processes that ensure we follow regulations carefully, building trust and enabling positive future dialogue with policymakers.
- Supplying timely and accurate information to our regulators.

Point risks that could affect this category

- Uncertainty around the broadband Universal Service Obligation.
- Shutting down our legacy networks as required.

Emerging risks that could affect this category

- Increased regulation for new technology may not support good customer experience.
- New or extended customer fairness regulation.

Operational

Service interruption

Owner: Chief technology officer

What this category covers

Our customers could face disruption to the services we provide if we failed to fix vulnerabilities in our networks or IT infrastructure, or didn't make them resilient enough.

How it could affect our strategy and/or business model

- An interruption to service, like one of our networks going down, would affect our customers directly. It could also make it harder for us to deliver critical services, which could damage our reputation.

How we manage it

- Regularly testing our business continuity and disaster recovery plans and keeping them up-to-date.
- Planning how to deal with the effects of climate change globally, including network and IT resilience to face more severe weather events.
- Responding quickly to incidents and reducing their impact through quickly-deployable and geographically dispersed emergency response teams.
- Continually scanning the horizon and doing more proactive monitoring across our network and IT estate.

Point risks that could affect this category

- The ability to remove high-risk vendors from our network.
- Our suppliers' performance.

Emerging risks that could affect this category

- Increasing frequency and severity of extreme weather events.
- Transforming ourselves and our technology without disrupting service.

a Owner will change to general counsel and director of regulatory affairs from 1 June 2021, see page 8.

Cyber security

Owner: Chief technology officer

What this category covers

We might fail to protect ourselves, or our customers, from harm caused by intended or unintended cyber security events.

How it could affect our strategy and/or business model

- If we didn't stop a cyber attack, it could lead to business disruption or compromised data. And that could lead to penalties, financial loss, cancelled contracts or regulatory sanctions.
- If our reputation were damaged by a cyber security issue, it would also have a negative effect on our security credentials in the marketplace.

How we manage it

- Monitoring external threats and gathering intelligence on evolving cyber techniques, tactics and capabilities.
- Keeping ourselves in a heightened state of preparedness to quickly detect and respond to cyber threats before they become incidents.
- Promoting good security 'hygiene' and behaviour in our colleagues, through communications, campaigns and training.
- Continuing to invest in our cyber defences and security tooling to improve our ability to protect BT and our customers.

Point risks that could affect this category

- Being exposed to suppliers with security vulnerabilities.
- Relying on externally hosted cloud services.
- Increasing levels of remote working during and after the pandemic.

Emerging risks that could affect this category

- AI and machine learning being weaponised as security threats.
- Growing numbers of connected home devices need more focus on protecting customers.

Transformation delivery

Owner: Chief digital and innovation officer

What this category covers

We could fail to effectively implement the changes needed to radically simplify our processes and products, and modernise our technology.

How it could affect our strategy and/or business model

- Not realising the benefits of our transformation could negatively impact customer and colleague experience.
- It could also affect our operational efficiency and make it harder for us to make future investments.
- Not having the right processes, tools and techniques to transform ourselves might stop us realising benefits, like improving our productivity through simplification.

How we manage it

- Having a strong governance model, with senior leaders owning major transformation activities.
- Monitoring operational performance using financial and non-financial measures to make sure we generate value.
- Investing in new capabilities, and developing matching skills in our colleagues, so that we have the right resources to deliver change effectively.
- Collaborating across the group in a way that properly reflects our customers' end-to-end journeys.

Point risks that could affect this category

- Migrating to digital platforms.
- Allocating the right resources, capabilities and organisational design to maximise value creation.

Emerging risks that could affect this category

- Delays to our full fibre build might make it harder to simplify our portfolio.
- Switching off the PSTN in December 2025.

Our principal risks and uncertainties continued

Operational (continued)

People

Risk Owner: HR director

What this category covers

Our organisational structure, or the diversity, skills, engagement and culture of our workforce, could fall short of what is needed to deliver for customers in the short or longer term.

How it could affect our strategy and/or business model

- A less diverse workforce could lead to poorer decision-making, and might make it harder for us to attract and retain talent.
- If our colleagues weren't engaged, it might cut productivity, hinder innovation and slow down the pace of our transformation. It could also potentially lead to industrial action.
- Failing to attract and retain talent in critical roles or with critical skills, and to foster a culture where everyone felt able to be their best, could affect our overall capabilities.

How we manage it

- Following a diversity and inclusion strategy to raise awareness, address bias and promote people networks and support for underrepresented groups.
- Listening to colleagues through things like employee engagement and pulse surveys, the *Colleague Board*, town halls or social platforms, and maintaining close relationships with formal employee representative groups.
- Investing in group-wide workforce and talent planning, training and development, with both role-specific and future skills in mind.
- Providing fair and competitive remuneration to colleagues that promotes smart risk taking, supports engagement and retention and aligns colleagues' interests with those of shareholders.

Point risks that could affect this category

- The post-Brexit employment environment.
- Social disruption and challenges around post-pandemic return to workplaces.

Emerging risks that could affect this category

- Long-term social and workplace effects from the pandemic.
- Growing colleague activism on social or environmental topics.

Health, safety and wellbeing

Owner: HR director

What this category covers

We could fail in our duty of care to make sure our colleagues are safe, healthy and fulfilled in a culture where they feel they can be and perform their best.

How it could affect our strategy and/or business model

- Failing to promote and embed a culture of continual improvement could stop us building a safe and compliant business that protects our colleagues at work. This would affect their morale and make us a less attractive employer.
- If we don't meet leading health, safety and wellbeing standards, and reduce avoidable harm incidents to zero, we could face financial penalties and damage to our reputation.

How we manage it

- Training our colleagues and ensuring they are clear on their role and accountabilities with regards to health, safety and wellbeing practices.
- Monitoring our colleagues' health, safety and wellbeing through surveys and focus groups, supported by a dedicated portal and mental health awareness training for managers.
- Using an incident reporting system to monitor our performance on health, safety and wellbeing.
- Making sure all BT suppliers operate in line with our safety standards.

Point risks that could affect this category

- Maintaining secure workplace measures and controls.

Emerging risks that could affect this category

- The long-term physical and mental health effects of lengthy periods of social restriction and limited mobility.

Major contracts

Owner: Chief executive

What this category covers

We could fail to sign or retain high-value national or multinational customer contracts because we weren't able to deliver the critical services agreed. Or we might end up entering into contracts with unfavourable commercial or legal terms.

How it could affect our strategy and/or business model

- Failing to meet our contractual commitments – or respond to changing customer needs – while ensuring productivity and avoiding cost over-runs, could affect our future revenues, profitability and cash generation.
- Service failures could damage our brand and reputation, particularly if they affected critical infrastructure contracts or security and data protection services.
- Profits could be impacted following the pandemic as customers' businesses shrink or face consolidation or financial failure.

How we manage it

- Using a clear governance framework to manage the bid process and in-life management of contract risks.
- Following a cycle of regular contract reviews, led by senior management or our specialist independent review team.
- Using advanced contract management tools to support frontline contract managers.

Point risks that could affect this category

- The complexities associated with handling multiple customer obligations.
- Delivering complex critical national infrastructure contracts.
- Moving customers away from end-of-life products and services.

Emerging risks that could affect this category

- Fast-changing customer needs in a post-Brexit business environment.
- Changes to the geopolitical landscape affecting growth prospects in certain regions.

Customer service

Owner: CEO, Consumer

What this category covers

We might fail to give our customers the good-value, outstanding service they expect, making it harder for us to build personal and enduring relationships with them.

How it could affect our strategy and/or business model

- If we don't satisfy our customers with modern, competitive products and solutions, combined with outstanding service, they might leave BT for a competitor and, as a result, damage our reputation.
- Failing to transform our customer experience could negatively affect customer satisfaction and retention, colleague pride and advocacy, our group revenues and brand value.
- If we miss our regulatory commitments, we could face associated financial penalties.

How we manage it

- Delivering on our promises about the service levels customers should expect from us, and tracking a range of customer experience performance metrics.
- Planning with all our suppliers how we'll manage the impact of a potential future pandemic resurgence.
- Piloting schemes and testing customer equipment to minimise the impact of new hardware, services or platforms.
- Making sure we won't be short on key skills by following a colleague retention and skills development plan.

Point risks that could affect this category

- Drops in service level because of reduced retail presence.
- Migrating to new service platforms.

Emerging risks that could affect this category

- Long-term changes in customer needs and expectations.

Our principal risks and uncertainties continued

Operational (continued)

Third party management

Owner: Chief financial officer

What this category covers

We might fail to select the right suppliers and partners, or there might be failures in how we manage the relationships with the third parties we rely on.

How it could affect our strategy and/or business model

- Selecting suppliers who couldn't meet our needs, or depending too much on too few suppliers, could lead to poor third party commercial terms. That could damage our strategic, market or competitive position.
- Picking suppliers who weren't up to the job might lead to failed deliveries, lost revenue or investment, fines or damage to our reputation.
- Managing suppliers poorly could disrupt our business and lead to regulatory fines and brand damage. For example if we discovered a supplier was involved in modern slavery, or was vulnerable to a cyber attack that could compromise BT sensitive data.

How we manage it

- Applying ethical and responsible business principles when picking suppliers.
- Conducting pre-contract checks on our suppliers covering their financial health and their ability to meet our standards on anti-bribery and corruption, security or data privacy.
- Monitoring suppliers' performance on energy use, environmental impact and labour standards and supporting their improvement plans.
- Getting assurance that the goods and services we buy are made, delivered and disposed of in a socially and environmentally responsible way.
- Continuing to invest in AI and machine learning tools to give us greater transparency to supplier risk across our top suppliers, and to help develop category-specific strategies.

Point risks that could affect this category

- Disruption due to worldwide shortages of critical supplies.
- Supplier-related cyber and data security threats.
- Being sure of ethical business practices across our whole supply chain.

Emerging risks that could affect this category

- Political tensions in regions where we have a high concentration of suppliers.
- Single-source vendors' delivery performance.
- Driver shortages affecting our suppliers' delivery models.

Task Force on Climate-related Financial Disclosures

We're committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). They're a big step towards a net zero carbon economy and will help manage the future impact of climate change on BT. This is our second year of disclosure aligned to TCFD recommendations.

Climate change governance

The Board has overall responsibility for how we identify and manage climate-related risks, delegated to the *Digital Impact & Sustainability Committee* which oversees our climate change strategy, programme and goals, chaired by non-executive director Leena Nair.

The *Executive Committee* sets operational strategy on climate change and sustainability and monitors the associated risks, supported by our digital impact and sustainability team.

Our *Environmental Management Governance Group* manages day-to-day climate-related compliance and risk issues on behalf of the *Executive Committee*, reporting back regularly.

This year, we commissioned an independent review based on the World Economic Forum's Principles for effective climate governance on corporate boards. We got high 'maturity ratings' across four of the eight principles, with useful improvement plans laid out for the other four (which got moderate to good ratings). The review helped us set our internal governance priorities, including integrating climate change better within our risk management framework.

Five percent of the annual bonus available to eligible managers, including executive directors, is linked to our target of cutting the carbon emissions intensity of our operations by 87% by the end of March 2031.

For more on our climate strategy, see **pages 32 to 33**.

Climate-related risks and opportunities

Identifying the risks

We identify all risks, including those around climate change, within our risk management framework. Last year we reviewed the climate-related risks around transitioning to a lower-carbon economy, and the physical impacts of climate change by using TCFD's different reference scenarios.

We've taken steps to consider climate change risks and opportunities across the whole group and reflect them in our group risk categories. Risk owners are getting training to improve their awareness of the issues. We're also developing a process to review climate change risks as a whole across all risk categories as we continue to implement the TCFD recommendations.

You can read more on our risk management framework on **pages 57 to 58**.

Analysing scenarios

This year, we continued analysing scenarios to understand the potential financial impact of climate change to BT in 2030 and 2050. Impacts were considered under a range of scenarios reflecting different rises in global temperatures above pre-industrial levels by 2100. The Intergovernmental Panel on Climate Change's shared socioeconomic pathways (which look at how various climate policies influence greenhouse gas emissions) and transition scenarios from the Network for Greening the Financial System, also helped inform our analyses.

We've used a core scenario (2°C to 3°C) that we think is most likely, and then reviewed more extreme 'what if?' transition and physical scenarios (1.5°C and 4°C).

Responding to our main physical risks

Flooding: Longer term, our full fibre rollout will mean fewer physical network sites, cutting our overall exposure to physical climate change risks. We've analysed possible risks from large-scale flooding at 150 business critical sites. In the scenarios we explored, the potential financial impacts aren't material – partly because of the flood defence work we've already done in 19 high-risk locations. We expect our flood defence programme to cost around £6m once we complete it next year. In 2021 we'll continue our flood analysis and consider the potential effects of weather-related repairs across our UK estate.

Heat: In most scenarios in 2030 and 2050, the UK will see a rise in extreme heat days. The risk of these days damaging our network sites is very low – largely because of cooling system upgrades in our metronode sites which are effective up to a 45°C external temperature. Once complete, we expect the upgrades program to cost us £119m. So higher temperatures should not have a material impact on repair or cooling costs.

Outside the UK, extreme weather could affect our customers and disrupt service, as well as affecting colleagues in key operational sites. In particular, our India sites are already being affected by extreme heat, set to increase in future.

Our supply chain reaches nearly 100 different countries. But a significant proportion of raw materials for our products are concentrated in China where flood risks are predicted to increase under future warming scenarios. This is a shared concern across our sector – however we'll keep monitoring our supply chain risks and work to minimise them.

Managing transition risks and reaching net zero

We've promised to become a net zero carbon emissions business[a] by 2045. This year, we extended the scope to include our supply chain as well as our operations. This reduces the potential impact of transition risks. There are details of our strategy for achieving that target on pages 32 to 33. This section focuses on how the different elements of that strategy affect transition risks.

100% renewable electricity: All the electricity we use worldwide is renewable[b]. Under the scenarios we've considered, we know there are risks from potential gaps in UK renewable electricity supply. We'll keep monitoring this.

Moving to a low carbon fleet: We're committed to switching as much of our fleet as we can to run on electric and alternative fuels by 2030. This largely cuts any risks around policies designed to reduce vehicle carbon emissions.

Decarbonising our buildings: This year, we invested nearly £21m in energy efficiency projects, contributing to a global energy reduction of 123 GWh. This, together with our commitment to renewables, minimises any transition risks around carbon pricing.

Helping suppliers cut carbon: If our suppliers fail to cut their emissions, it could lead to carbon costs being passed on by 2030 under a 2°C scenario. That risk applies to our whole sector. To respond, we want to cut supply chain emissions by 42% by the end of March 2031 (compared to 2016/17 levels) and to reach net zero by 2045. We'll keep monitoring possible carbon pricing risks, tracking how they might be affected by the growing number of net zero commitments and China's plans for carbon neutrality (where many of our raw material suppliers are based).

Metrics and targets

Performance on our climate targets and emissions reporting can be found in our tackling climate change and environmental challenges section on **pages 32 to 33**.

a Measures for scopes 1, 2 and supply chain greenhouse gas emissions.
b 99.9% is renewable – the remaining 0.1% represents markets where renewable electricity isn't available (eight countries).

Viability statement

In accordance with provision 31 of the UK Corporate Governance Code 2018, the Directors have assessed the prospects and viability of the group.

The assessment has been based on the company's strategy, balance sheet and financing position, including our £2.1bn undrawn committed borrowing facility which matures in March 2026, and the potential impact of 'Our principal risks and uncertainties'. The Board has chosen to conduct its review for a period of three years to 31 March 2024. It believes this is an appropriate timeframe as it aligns with the primary focus of our business planning and the time cycles shared by some of our major internal and external risks and uncertainties, for example the pension scheme funding valuation and the interval between significant sports rights auctions. We are reviewing the focus of our planning period to determine if we are able to make this statement over a longer five year period in future years, as our business and financial planning already takes into account our longer-term obligations.

The assessment of viability is based on our medium term plan which forecasts the group's profitability, cash flows and funding requirements, and is approved by the Board at the end of each year. The medium term plan is built from bottom-up forecasts of each of our customer-facing units, supplemented by items managed at a group level and assumptions such as macro-economic activity and exchange rates. The performance of the group and our customer-facing units against these forecasts is monitored monthly and this is supplemented each quarter through a series of quarterly business reviews of each business unit conducted by the chief executive and chief financial officer.

Beyond our medium term plan horizon, the group also makes investments that have business cases covering a longer time period, such as our network investments. Significant capital expenditure investment cases are approved by the chief executive and, where appropriate, the Board, after taking into account longer-term risks and opportunities such as the economy, technology and regulation.

In support of our viability statement we've stress tested our forecast cash flows by assessing the impacts our principal risks and uncertainties, as set out on pages 59 to 66, could have on our forecasts. In this assessment we've adopted a number of assumptions designed to stress test our resilience, in particular, we have not automatically assumed that, should the need arise, we would be able to raise new debt; we have instead considered this as part of any mitigating action.

Our assessment considered the following:

Individual risks

What: the potential financial impact of severe but plausible scenarios quantified for each of our principal risks and uncertainties

Why: to test viability under any individual risk and uncertainty

How: we produced a scenario for each of our principle risks and uncertainties, including a Covid-19 scenario assuming another nationwide lockdown

Outcome: our stress testing confirmed that existing projected cash flows and cash management activities provide us with a buffer against the impact of any individual risk

Combined risks

What: a combination of the full financial impact of individual scenarios materialising simultaneously

Why: to test viability should a combination of multiple risks materialise in parallel

How: we have combined a number of risks including another lockdown due to Covid-19, a revaluation of the BT Pension Scheme (BTPS) and enforcement action from Ofcom. We have also assumed that industrial action takes place and a scenario where we are unable to prevent a cyber attack which leads to a class action due to loss of customer data

Outcome: in this most extreme combined scenario we would need to take further action to mitigate the negative cash flow impact and ensure additional liquidity

Mitigations: should we be able to raise new debt in line with our normal treasury funding policies we would fully mitigate any downside. If this was not possible other actions management could take include limiting or delaying discretionary capital expenditure and marketing activities, and/or not reintroducing dividend payments. A reasonable combination of these actions would also fully mitigate any downside

Probabilistic risk modelling

What: a model estimating the impacts of the individual severe but plausible scenarios

Why: a test of viability under multiple occurrences of severe scenarios

How: we have modelled a probabilistic analysis of the potential financial impact of each individual risk if they materialise together with their likelihood of occurrence using a Monte Carlo simulation

Outcome: in extreme probabilistic modelled scenarios we would need to take further action to mitigate the negative cash flow impact and ensure additional liquidity

Mitigations: should we be able to raise new debt in line with our normal treasury funding policies we would fully mitigate any downside. If this was not possible other actions management could take include limiting or delaying discretionary capital expenditure and marketing activities, and/or not reintroducing dividend payments. A reasonable combination of these actions would also fully mitigate any downside

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